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No. 06-1413

NOV 5 2007

In The
Supreme Court of the United States

MEADWESTVACO CORPORATION, successor in interest to THE MEAD CORPORATION,

Petitioner,

v.

ILLINOIS DEPARTMENT OF REVENUE, DIRECTOR OF THE ILLINOIS DEPARTMENT OF REVENUE, AND TREASURER OF THE STATE OF ILLINOIS,

Respondents.

On Writ Of Certiorari To The Appellate Court Of Illinois

JOINT APPENDIX

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Petition For Certiorari Filed April 20, 2007
Certiorari Granted September 25, 2007

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TABLE OF CONTENTS

Page

Relevant Docket Entries 1

Stipulation of Facts [Some Exhibits Intentionally Omitted] 4

Exhibit 2 Notice of Deficiency, Dated December 19, 1998 22

Exhibit 7 Press Release, Dated May, 16, 1994 32

Exhibit 8 News Article, Dated May, 17, 1994: "Exiting info highway" 39

Exhibit 9 News Article: "Mead plans future on paper" 49

Exhibit 21 Auditor's Comment [Excerpts] 53

Exhibit 23 Excerpts from Mead's 1993 Annual Report 59

Exhibit 24 Excerpts from Mead's 1994 Annual Report 87

Exhibit 25 Excerpts from Mead's 1993 10-K 90

Exhibit 26 Excerpts from Mead's 1994 10-K 123

Exhibit 27 Excerpts of Mead's Board Meeting Minutes 130

Exhibit 35 Merger Proposal Memorandum [Excerpt] 147

Exhibit 37 Merger Memo 149

TABLE OF CONTENTS – Continued

Page

Excerpts from the Transcript of the Hearing before Hon. Alexander P. White, J., Circuit Court of Cook County, Illinois 151

Defendant's Trial Exhibit A One page excerpt from auditor's work papers 189

The following opinions, decisions, judgments, orders and other relevant parts of the record have been omitted in printing this joint appendix because they appear on the following pages in the appendix to the Petition for a Writ of Certiorari:

Final Judgment Order of the Circuit Court of Cook County, Illinois 25a-27a

Memorandum Decision, Judgment and Order of the Circuit Court of Cook County, Illinois 28a-40a

Order of the Appellate Court of Illinois to Publish Rule 23 Order as a Precedential Decision 23a-24a

Precedential Opinion of the Appellate Court of Illinois 1a-22a

Denial of the Supreme Court of Illinois of the Petition for Leave to Appeal 41a

Motion of Defendants-Appellees to Publish Rule 23 Order as a Precedential Decision 42a-47a

Expert Report of Walter Hellerstein 48a-58a

Expert Opinion of Professor Richard D. Pomp 59a-77a

Expert Report of Ferdinand P. Schoettle, LL.D., Ph.D. 78a-103a

RELEVANT DOCKET ENTRIES

* * *

03/02/99	VERIFIED COMPLAINT FOR PRELIMINARY AND PERMANENT INJUNCTION AND FOR DECLARATORY RELIEF filed
03/02/99	MOTION FOR PRELIMINARY INJUNCTION filed
03/03/99	PRELIMINARY INJUNCTION ORDER filed
04/02/99	ANSWER filed
01/03/01	AGREED PRELIMINARY INJUNCTION ORDER entered
01/03/01	AGREED ORDER GRANTING LEAVE TO AMEND COMPLAINT entered
01/04/01	FIRST AMENDED VERIFIED COMPLAINT FOR PRELIMINARY AND PERMANENT INJUNCTION AND FOR DECLARATORY RELIEF filed
10/05/01	MOTION TO STRIKE filed
11/21/01	DEFENDANTS' BRIEF IN SUPPORT OF MOTION TO STRIKE filed
01/04/02	MEMORANDUM OF LAW IN OPPOSITION TO MOTION TO STRIKE filed
01/22/02	REPLY BRIEF IN SUPPORT OF MOTION TO STRIKE filed
03/18/02	PLAINTIFF'S WITNESS LIST filed

03/19/02	DEFENDANTS' WITNESS LIST filed
03/20/02	STIPULATION OF FACTS filed
03/20/02	TRIAL held
06/04/02	PLAINTIFF'S OPENING POST-TRIAL BRIEF filed
07/09/02	DEFENDANTS' POST TRIAL BRIEF filed
07/23/02	SUPPLEMENT TO DEFENDANTS' POST TRIAL BRIEF filed
09/13/02	PLAINTIFF'S REPLY BRIEF filed
03/18/03	MEMORANDUM DECISION, JUDGMENT AND ORDER of the Circuit Court of Cook County, Illinois in favor of the Defendants entered
03/25/03	FINAL JUDGMENT ORDER entered
04/11/03	NOTICE OF FILING (TRIAL TRANSCRIPT) filed
04/16/03	NOTICE OF APPEAL PURSUANT TO SUPREME COURT RULE 303 filed by Plaintiff
04/28/03	REQUEST TO PREPARE RECORD ON APPEAL filed
04/30/03	STIPULATION OF TRIAL EXHIBITS filed
11/03/06	RULE 23 (UNPUBLISHED) ORDER issued by the Appellate Court of Illinois affirming the judgment of the Circuit Court of Cook County, Illinois

11/14/06	MOTION TO PUBLISH RULE 23 ORDER AS A PRECEDENTIAL DECISION filed by the Illinois Department of Revenue
12/08/06	PETITION FOR LEAVE TO APPEAL filed by The Mead Corporation with the Supreme Court of Illinois
01/03/07	ORDER issued by the Appellate Court of Illinois granting the Illinois Department of Revenue's Motion to Publish Rule 23 Order as a Precedential Decision
01/12/07	OPINION OF THE APPELLATE COURT OF ILLINOIS (PUBLISHED) issued affirming the judgment of the Circuit Court of Cook County, Illinois
01/24/07	DENIAL OF PETITION FOR LEAVE TO APPEAL by the Supreme Court of Illinois

IN THE CIRCUIT COURT
OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, LAW DIVISION
TAX AND MISCELLANEOUS
REMEDIES SECTION

---------- x

THE MEAD CORPORATION,
an Ohio corporation,

Plaintiff,

v.

ILLINOIS DEPARTMENT OF REVENUE, GLEN L. BOWER, Director of Illinois Department of Revenue, and JUDY BAAR TOPINKA, Treasurer of the State of Illinois,

Defendants.

No. 00 CH 07854

Transferred to Law Division

STIPULATION OF FACTS

---------- x

STIPULATION OF FACTS

(Filed Mar. 20, 2002)

AND NOW, this 19th day of March, 2002, the parties, by their undersigned counsel, hereby stipulate and agree that the following facts are true and correct for purposes of this proceeding, that all exhibits referred to herein and attached hereto are incorporated into this Stipulation and made a part hereof, and that where such exhibits are not the

original documents referred to, they are true and correct copies thereof. The parties hereto reserve the right to introduce additional evidence, not inconsistent herewith, into the record at trial, and to object to the relevancy or materiality of any such additional evidence offered into the record, and of any facts set forth in the subsequent paragraphs of this Stipulation, or the exhibits to the Stipulation.

1. At all times relevant hereto, The Mead Corporation ("Mead") was and is a corporation incorporated under the laws of Ohio.

2. At all times relevant hereto, Mead was and is headquartered and maintains its commercial domicile at Courthouse Plaza Northeast, Dayton, Ohio 45463.

3. At all times relevant hereto, Mead was and continues to be qualified to transact business in the State of Illinois.

PROCEDURAL FACTS

4. Mead timely filed its Illinois Corporate Income and Replacement Tax Return ("Illinois Return") for the year 1994. Therein Mead (1) reported as nonbusiness income the gain of $1,056,001,948.00 from the sale of Mead Data Central, which consisted primarily of the business constituting the Lexis/Nexis service and therefore will be referred to as "Lexis/Nexis"; and (2) included in the denominator of its sales factor its gross receipts from the sale of financial instruments in the amount of $4,777,472,468.00. Mead

subsequently determined that the amount of its gross receipts from the sale of financial instruments was $4,846,382,229.00. This corrected amount is not in dispute. Also not in dispute is that of this total amount of gross receipts, $1,967,953.61, was interest income.

5. The Illinois Department of Revenue ("Department") conducted an audit of Mead's Illinois Returns for the years 1993 and 1994. On December 10, 1998, the Department issued a Notice of Deficiency for the years (1) 1993, proposing a statutory overassessment in the amount of <$30,463.00>; and (2) 1994, proposing a statutory deficiency in the amount of $3,149,222.00, with interest in the amount of $1,049,017.00, less specified overpayments in the amount of $34,917.00, for a net amount proposed as due of $4,163,322.00. The adjustments for 1993 are not contested and only included herein because it was included with 1994 in the Notice of Deficiency.

6. On February 3, 1999, Mead paid to the Department $4,163,322.00, representing a payment under protest. The amount of the payment equaled the amount set forth in the December 10, 1998, Notice of Deficiency.

7. On March 2, 1999, a Verified Complaint for Preliminary and Permanent Injunction and for Declaratory Relief was filed in the Circuit Court for the Seventh Judicial Circuit, Sangamon County, Illinois, and was served on Defendants in this matter. Mead brought this action pursuant to the State

Officers and Employees Money Disposition Act, 30 ILCS 230/1 *et seq.* ("Protest Monies Act").

8. On April 2, 1999, Defendants filed with the Circuit Court for the Seventh Judicial Circuit, Sangamon County, Illinois, their Answer to the Verified Complaint for Preliminary and Permanent Injunction and for Declaratory Relief.

9. On April 26, 1999, Mead filed with the Circuit Court for the Seventh Judicial Circuit, Sangamon County, Illinois, its Reply regarding the Verified Complaint for Preliminary and Permanent Injunction and for Declaratory Relief.

10. On May 8, 2000 an Agreed Order was filed with the Circuit Court for the Seventh Judicial Circuit, Sangamon County, Illinois, transferring venue to the Circuit Court of Cook County, Illinois.

11. On October 27, 2000, the Department issued a second Notice of Deficiency for 1994 proposing a statutory deficiency in the amount of $79,625.00, along with interest in the amount of $34,616.00, less amounts previously paid of $39,890.00, for a total amount proposed as due of $74,899.00, based on Federal changes not in dispute herein, but that would affect the calculation of the apportionment formula.

12. On December 15, 2000, Mead paid to the Department $74,899.00, representing a payment under protest. The amount of the payment equaled the amount set forth in the October 27, 2000, Notice of Deficiency.

13. Mead was allowed to amend its original Verified Complaint instanter, to incorporate the December 15, 2000, payment under protest. On January 4, 2001, Mead filed its First Amended Verified Complaint for Preliminary and Permanent Injunction and for Declaratory Relief ("Complaint") with the Circuit Court of Cook County, Illinois, incorporating the December 15, 2000, payment under protest. Mead brought this action pursuant to the Protest Monies Act.

AGREED ISSUES

14. The following issues were set forth in Mead's Complaint:

Issue 1–Whether Mead correctly included in the denominator of its sales factor its gross receipts from the sale of financial instruments in the amount of $4,846,382,229.00 on its Illinois Return for 1994.

Issue 2–Whether Mead correctly allocated the gain of $1,056,001,948.00 from the sale of Lexis/Nexis on its Illinois Return for 1994, and if not whether Defendants correctly apportioned such gain.

15. Issue 1 was decided in Mead's favor by this Honorable Court by its granting of Mead's Motion for Partial Summary Judgment.

16. Defendants filed a Motion for Reconsideration regarding Issue 1 on February 25, 2002. Mead filed its Response on March 13, 2002.

Defendants opted not to file a Reply. The matter is scheduled for argument on March 20, 2002.

DISAGREED FACTUAL ISSUES

17. Mead asserts as a fact that it was not involved in the electronic publishing business. The Defendants dispute that fact.

AGREED FACTS REGARDING ISSUE 2

18. Mead was, and is, in the business of producing and selling forest products, including paper, packaging and paperboard, and school and office supplies.

19. Data Corporation was acquired by Mead in 1968 for $6,000,000.00. Shortly thereafter a portion of the assets of Data Corporation was transferred to a separate entity known as Mead Data Central.

20. At that time, Mead Data Central consisted of a small legal database.

21. Mead Data Central pioneered the field of computer assisted research in the early 1970s with its Lexis service and subsequently with its Nexis service in the 1980s, and Mead Data Central's service became known to the outside world as Lexis/Nexis.

22. Lexis/Nexis grew from a small legal database into the world's premier provider of online legal information and the pioneer of computer-assisted news retrieval.

23. Lexis/Nexis provided online information services for legal, news and financial information in the electronic publishing market.

24. Lexis/Nexis marketed its services under the LEXIS/NEXIS brand name. To most outside parties, LEXIS/NEXIS was how the business was known.

25. Mead did not use the LEXIS/NEXIS brand name in its forest products business.

26. Lexis/Nexis was responsible for its own operational training programs.

27. Lexis/Nexis retained its own outside legal counsel appropriate for handling its unique legal matters.

28. Lexis/Nexis maintained its own internal legal department, separate and apart from Mead's legal department.

29. Lexis/Nexis' legal department was responsible for handling day-to-day operational issues including negotiating licenses, employee matters, and technology agreements.

30. Lexis/Nexis maintained its own financial staff, separate and apart from Mead's financial staff.

31. Lexis/Nexis maintained its own accounting department, separate and apart from Mead's accounting department.

32. Lexis/Nexis maintained its own internal audit department, separate and apart from Mead's internal audit department.

33. Lexis/Nexis maintained its own credit and collection department, separate and apart from Mead's credit and collection department.

34. There were no transfers or sales of accounts receivables between Lexis/Nexis and Mead.

35. Lexis/Nexis maintained its own human resources department, separate and apart from Mead's human resources department.

36. Lexis/Nexis provided benefits for its employees that were different from the benefits that Mead provided to its employees.

37. Lexis/Nexis maintained its own marketing department, separate and apart from Mead's marketing department.

38. Lexis/Nexis' marketing department was responsible for the marketing of the services that it sold.

39. Lexis/Nexis' employees determined the marketing strategies and advertising campaigns for Lexis/Nexis.

40. The computer system used by Lexis/Nexis to service its customers was different from the computer systems used by Mead in its forest products business.

41. Lexis/Nexis maintained its own bank accounts that were separate from the bank accounts maintained by Mead.

42. There was no centralized purchasing of merchandise between Lexis/Nexis and Mead. For example, Lexis/Nexis and Mead each purchased the raw materials needed for their respective businesses.

43. There was no centralized manufacturing of product by Lexis/Nexis and Mead.

44. There was no centralized warehousing of merchandise by Lexis/Nexis and Mead.

45. Lexis/Nexis did not share manufacturing facilities with Mead.

46. Lexis/Nexis maintained its own facilities that were separate from the facilities maintained by Mead.

47. Lexis/Nexis' employees were located at its own facilities.

48. Lexis/Nexis created and modified its database services at its own facilities.

49. Due to concerns over security and the proprietary nature of Lexis/Nexis' business, employees of Mead could not obtain access to Lexis/Nexis' facilities without special authorization.

50. Lexis/Nexis did not share selling facilities with Mead.

51. Lexis/Nexis did not share distribution facilities with Mead.

52. There was no regular exchange of personnel from Lexis/Nexis to Mead nor from Mead to Lexis/Nexis.

53. Mead's approval was not needed for the promotion of personnel within Lexis/Nexis except with regard to the most senior executives of Lexis/Nexis.

54. Neither Mead's board of directors, officers, nor its management had anything to do with the determination of individual salary increases and bonuses of Lexis/Nexis' personnel except at the highest levels.

55. Neither Mead's board of directors, officers, nor its management had anything to do with the hiring or firing of Lexis/Nexis' personnel except with regard to the most senior executives of Lexis/Nexis.

56. Lexis/Nexis had its own full-time management to control its day-to-day operations.

57. During 1988, Lexis/Nexis was a separate, wholly owned subsidiary of Mead known as Mead Data Central, Inc. Mead and Lexis/Nexis filed separate Illinois Returns for the tax year 1988. The Department audited Mead and asserted that Mead and Lexis/Nexis were unitary businesses. The parties agreed to settle the disputed audit findings and Mead filed Illinois combined unitary Corporation and Replacement Tax Returns from that point forward.

58. Between 1988 and 1993, on its combined unitary Illinois Corporate Income and Replacement Tax Returns, Mead reported the following amounts of income and business expense deductions:

	Mead	Lexis/Nexis
Income	$3,829,995,123.00	$818,805,160.00
Deductions	$4,474,254,764.00	$684,422,461.00

59. Lexis/Nexis merged into and became a division of Mead in 1980. Lexis/Nexis was reincorporated in 1985. In 1993, Lexis/Nexis again merged into and became a division of Mead. Tax savings were considered in both of these mergers.

60. On May 16, 1994, Mead announced its intention to sell Lexis/Nexis.

61. Mead retained Goldman, Sachs & Co. to assist it in the divestiture.

62. On December 2, 1994, Mead announced the completion of the sale of Lexis/Nexis to Reed Elsevier plc for approximately $1.5 billion.

63. The sale of Lexis/Nexis by Mead represented the complete disposition and liquidation by Mead of the Electronic Publishing business.

64. After the sale of Lexis/Nexis, Mead never went back into the electronic publishing market.

65. The proceeds from the sale of Lexis/Nexis were used for a stock repurchase program, to retire

debt and to pay taxes. Specifically, $349,664,065.00 was allocated to the stock repurchase program, $725,550,000.00 to the retirement of debt, $424,700,000.00 to pay taxes and $85,935.00 for other purposes.

66. Mead decided to repurchase shares of stock and pay off outstanding debt in order to maximize the value of its stock for its shareholders and to minimize its vulnerability to a corporate takeover.

67. In response to Defendants' First Written Interrogatories, in particular Interrogatory 13, Mead stated that it believed that the difference between Mead's working capital at the end of 1994 and its working capital at the end of 1993 is attributable to the sale of Lexis/Nexis. For purposes of the interrogatory, working capital was defined as current assets minus current liabilities.

68. Mead's board of directors reviewed and approved large capital expenditures by Lexis/Nexis, changes to Lexis/Nexis' legal structure and other large, nonrecurring transactions; including the 1980 merger, approving capital expenditures in the amounts of $1,650,000.00 (for computer center expansion) and $7,672,000.00 (for two central processing units and related equipment) in 1984, the 1993 merger, a capital expenditure of $9,100,000.00 (for computer capacity increase) in 1994, forming a committee to approve an agreement with Dow Jones in 1994 (to distribute financial information), and the

acquisition of Journal Graphics in 1994 for approximately $6,000,000.00.

EXHIBITS

69. Attached and numbered as Exhibits as indicated, are true and correct copies of the following documents:

Exhibit 1 - Illinois Corporate Income and Replacement Tax Return for the year 1994

Exhibit 2 - Notice of Deficiency dated December 10, 1998

Exhibit 3 - February 3, 1999 payment and enclosed correspondence

Exhibit 4 - Agreed Order dated May 8, 2000

Exhibit 5 - Notice of Deficiency dated October 27, 2000

Exhibit 6 - December 15, 2000 payment and enclosed correspondence

Exhibit 7 - May 16, 1994 Mead Press Release

Exhibit 8 - Two Articles from Tuesday, May 17, 1994, Dayton Daily News entitled "Exiting info highway, Mead to sell data unit, concentrate on forest products" (Summaries on right hand side

of page 1A), and "3,800 workers include 2,000 employed here"

Exhibit 9- Article from Tuesday, May 17, 1994, Dayton Daily News entitled "Mead plans future on paper"

Exhibit 10- Mead's Motion for Partial Summary Judgment and Memorandum in Support of its Motion

Exhibit 11- Defendants' Response and Cross Motion for Partial Summary Judgment

Exhibit 12- Mead's Reply Regarding its Motion for Partial Summary Judgment

Exhibit 13- Order granting Mead's Motion for Partial Summary Judgment

Exhibit 14- Qualifications of Professor Walter Hellerstein

Exhibit 15- Qualifications of Professor Richard D. Pomp

Exhibit 16- Qualifications of Dr. Ferdinand P. Schoettle

Exhibit 17- Qualifications of Mr. Kennion Yano

Exhibit 19- Illinois Corporate Income and Replacement Tax Returns for

the year 1988, together with Notice of Disposition.

Exhibit 20- 1988 IL-1120-X

Exhibit 21- Auditor's Comments

Exhibit 22- Illinois Corporate Income and Replacement Tax Return for the year 1993

Exhibit 23- 1993 Annual Report

Exhibit 24- 1994 Annual Report

Exhibit 25- 1993 Form 10-K

Exhibit 26- 1994 Form 10-K

Exhibit 27- Board of Directors minutes: 12/11/80, 7/26/84, 12/10/93, 2/24/94, 4/27/94, 4/28/94, 5/14/94, 8/4/94, 10/4/94, 10/29/94, 12/9/94 (as redacted by Mead)

Exhibit 28- Unanimous Written Consent of the Debt Committee, 12/3/94

Exhibit 29- Mead Corp. Gross Receipts 1994

Exhibit 30- Mead Corporation, report by Goldman, Sachs & Co., 10/21/94

Exhibit 31- Mead Corporation: Alternatives for Reinvestment of MDC Proceeds, report by Goldman, Sachs & Co., 9/8/94

Exhibit 32- Notices of Redemption to Bankers Trust Co. and Citibank, N.A., 12/6/94

Exhibit 33- Press Release, Mead Board Authorizes Program for Stock Buyback; Debt Reduction, 10/31/94

Exhibit 34- Press Release, Mead Corp. Board Calls Debentures for Redemption and Authorizes Repurchase of Notes, 12/7/94

Exhibit 35- Memorandum from L.J. Francis to T.E. Palmer, MDC's Proposed Merger Writeup, 11/17/93

Exhibit 36- Memorandum from Eve Kempfer to David A. Heuhardt, Mead Data Central/Mead Digital Systems merger, with attachments, 1/13/80

Exhibit 37- Recommendation to Board of Directors re: Liquidation/Merger of Mead Data Central Inc. and Mead Digital Systems Inc., 12/11/80

70. The parties agree that Professor Walter Hellerstein is qualified to testify as an expert in the field of tax policy. *See*, Exhibit 14.

71. The parties agree that Professor Richard D. Pomp is qualified to testify as an expert in the field of tax policy. *See*, Exhibit 15.

72. The parties agree that Dr. Ferdinand P. Schoettle is qualified to testify as an expert in the field of economics. *See*, Exhibit 16.

73. The parties agree that Mr. Kennion K. Yano is qualified to testify as an expert in the field of accounting. *See*, Exhibit 17.

Respectfully submitted,

/s/ Paul H. Frankel

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Attachments

[Some Exhibits Intentionally Omitted]

[EXHIBIT 2]

ILLINOIS DEPARTMENT OF REVENUE
101 West Jefferson Street
Springfield, Illinois 62794

December 10, 1998

FORM IL-1120

FEIN: XX-XXXXXXX

TAXABLE YEAR(S) ENDING:
12/31/93 and 12/31/94

STATUTORY DEFICIENCY:
$3,149,222.00

INTEREST TO DATE:
$1,049,017.00

LESS SPECIFIED OVERPAYMENTS:
$ 34,917.00

NET AMOUNT DUE:
$4,163,322.00

NOTICE OF DEFICIENCY

The Mead Corporation
C/O Mead Tax Department
Courthouse Plaza NE
Dayton, OH 45463

Pursuant to Section 904(c) of the Illinois Income Tax Act, notice is hereby given that the determination of your income tax liability for the above-noted taxable year(s) discloses a deficiency (or deficiencies) in the amount shown above. The attached statement contains explanations of the adjustments and shows the computation of the deficiency (or deficiencies).

IF YOU AGREE to this determination and pay the NET AMOUNT DUE shown above within thirty (30) days of the date of this notice, no additional interest will accrue. The payment should be forwarded to the address shown below.

IF YOU DO NOT AGREE, Section 908(a) of the Act provides that the Department shall reconsider the proposed assessment if within 60 days of the date of this notice, the taxpayer or his authorized representative files a written protest setting forth the grounds upon which the protest is based and, if requested, shall grant the taxpayer or his authorized representative a hearing (under Section 914). Thus, if you disagree with the assessment proposed, you may file a protest and, if desired, request a hearing. A protest, if filed, should be forwarded to the address shown below.

IF AN ADEQUATE AND TIMELY PROTEST is not received, the total amount of the deficiency shown will be deemed assessed as of the expiration of the aforementioned 60-day period pursuant to Section 903(a)(2) and 904(d). If no protest is filed and if the tax liability is not paid within 60 days of the date of this notice, a 15% penalty will be assessed under Section 3-3(b)(2) of the Uniform Penalty and Interest Act for liabilities which became due on or after January 1, 1994. If the tax remains unpaid after a demand for payment, the Act permits, in addition to other remedies, the seizure and sale of real and personal property to enforce collection.

Very truly yours,

/s/ Kenneth Zehnder
Director of Revenue

Enclosures: EAR-14, IDR-867
Return Envelope
Schedule of Interest Rates

NOTICE SECTION
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19012
SPRINGFIELD, IL 62794-9012
PHONE: 217-782-5835
ATTENTION: GDP (38017A)

STATEMENT

FEIN: XX-XXXXXXX
The Mead Corporation
Courthouse Plaza NE
Dayton, OH 45463

Pursuant to Section 909(e) of the Illinois Income Tax Act, notice is hereby given that your claim for refund of income tax overpayment in the amount of $8,726 for the taxable year ended 12/31/94, filed on 4/7/97, is denied in its entirety, while your claim for refund in the amount of $31,519 for the taxable year ended 12/31/93, filed on the same date, is partially denied. The Department holds the tax stated on the Notice of Deficiency to be the correct liability for these tax years and thus, finds no tax overpayment to exist.

IF YOU DO NOT AGREE, Section 910(a) of the Act provides that the Department shall reconsider the denial if within 60 days of the date of this notice, the claimant files a written protest thereto setting forth the grounds upon which the protest is based and, if

requested, shall grant the taxpayer or his authorized representative a hearing (under Section 914). Thus, if you disagree with the proposed denial of your claim, you may file a protest and, if desired, request a hearing. If an adequate and timely protest is not received, the denial of your claim in its entirety (or in the amount shown above) will become final as of the expiration of the aforementioned 60-day period pursuant to Section 909(f). A protest, if filed, should be forwarded to the address shown at the bottom of the cover letter.

EXPLANATION OF ADJUSTMENTS

Page 1

Taxpayer Name: The Mead Corporation

12/9/98

FEIN: 31-0535759

Audit Period: CYE 12/93, 12/94

Adjustments		12/31/93	12/31/94
We changed your capital gain due to the carryforward (or carryback) of a capital loss from another year. Ref: IITA Section 203(e)(2)(E).		-15,874,010	-6,997,201
We adjusted IL-1120, line 1 by including the federal taxable income of your FSC to reflect its status as a unitary group member. Ref: IITA Section 1501(a)(27).		1,080,215	1,137,779
We changed your subtraction modification for interest income from U.S. government obligations by disallowing obligations which are taxable. Ref: IITA Section 203(b)(2)(J).		-34,053	
We corrected your subtraction modification for interest income on U.S. Treasury obligations not previously claimed. Ref: IITA Section 203(b)(2)(J).			1,551,516
We adjusted your subtraction modification to reflect the foreign dividends allowed by Illinois law. Ref: IITA Section 203(b)(2)(O).		-84,793	-963,319
We changed to business income(loss) the amount of gain(loss) from the sale of property previously used in your trade or business operations. Ref: IAC Section 100.3010(d)(3).	Everywhere		-1,056,001,948
	Illinois		
We changed your deduction for non-unitary partnership income to include the income of partnerships that are unitary with your business operations. Ref: IAC Section 100.3380(c).	Everywhere	-22,955,842	-18,713,192
	Illinois		
The property factor was corrected to exclude intercompany rent expense between members of the unitary group. Ref: IAC Section 100.3320(d).	Everywhere	-2,336,992	-593,112
	Illinois		
We have corrected computational errors in the calculation of the property factor. Ref: IITA Sec. 304(a)(1)(A).	Everywhere	-6,914,116	-30,811,246
	Illinois	-3,219,273	-5,641,578
We adjusted everywhere payroll using your consolidated US-1120 which detailed the wage expenses incurred by each member of the combined group. Ref: IAC Section 100.3360.	Everywhere	2,397,107	2,238,461
We adjusted the Illinois sales to include receipts from intangible sales where the income-producing activity was performed in Illinois. Ref: IAC Section 100.3370(c)(3).	Everywhere		
	Illinois	3,919,563	

BEST AVAILABLE COPY

We adjusted your sales factor to reflect gross sales less returns and allowances.	Everywhere		-301,153,465
Ref: IAC Section 100.3370(a)(1)(A).	Illinois		-18,041,307
We removed from the sales factor the amount of income excluded from Illinois base income.	Everywhere	-1,193,314	-6,658,475
Ref: IDOR policy.	Illinois		
The sales factor was corrected to include only the net gain from the sales of intangible assets.	Everywhere	-324,751,664	-3,639,057,064
Ref: IAC Section 100.3380(b)(6)	Illinois		42,126,702
We determined the amount of investment tax credit you were required to recapture based on property that ceased to be qualified property.	R		
Ref: IITA Section 201(e)(7).		1,149	1,486
We have adjusted your investment credit against the income tax by eliminating property that was not used in an Illinois enterprise zone.	Income Tax		-9,886
Ref: IITA Section 201(f).			
We have allowed an additional amount of investment tax credit that was available and previously unused. Ref: IITA Section 201(e).	Income Tax	10,931	
	Replacement Tax	12,010	84,231
We allowed an investment tax credit for property located in an Illinois enterprise zone that was not claimed on your original return.	I	40,871	
Ref: IITA Section 201(f).			

COMPUTATION FOR NOTICE OF DEFICIENCY Page 2

The Mead Corporation
Courthouse Plaza NE
Dayton, OH 45463

FEIN: 31-0535759
Tax yr begining: 1/1/94
Tx year ending: 12/31/94

FEDERAL TAXABLE INCOME			1,094,555,886
Exempt Interest Addition			2,298,309
IT and/or RT Addition			2,406,100
Other Additions:			0
US Gov't Interest Subtraction			1,551,516
Dividends (Sec 78, Sch J, Subpart F, Etc) Subtraction			11,982,938
Other Subtractions:			0
BASE/UNITARY BASE INCOME			1,085,725,841
Less: Nonbusiness Income			0
Partnership Income			-1,248,871
Apportionable Business Income			1,086,974,712
APPORTIONMENT	EVERYWHERE	ILLINOIS	FACTOR
Property Factor	5,159,190,015	103,285,415	0.020020
Payroll Factor	900,248,292	26,705,213	0.029664
Sales Factor	6,315,282,837	362,659,464	0.057426
Sales Factor	6,315,282,837	362,659,464	0.057426
Total Factors			0.164536
AVERAGE			0.041134
Illinois Business Income			44,711,618
Add: Illinois Nonbusiness Income			0
Illinois Partnership Income			0
Illinois NOL Carryback or Carryover			0
Illinois Base Income			44,711,618
Exemption and Illinois Net Income		41	44,711,577
Net Income and IT Tax @ 4%		44,711,577	1,788,463
Net Income and IT Tax @ .8%		44,711,577	357,693
Add: Investment Tax Cr Recapture			0
Less: IT Investment Cr			7,587
RT Tax Paid Cr			2,019
RT Tax Cr Carryforward			0
Net Income Tax			2,136,550
Illinois Base Income – RT			44,711,618
RT Addback		0	0
IL Base w/Adbk			44,711,618
Exemption and Net RT Income @ 2.5%		41	44,711,577
RT Tax @2.5 %			1,117,789
Net Income and RT Tax @ .35%		0	0
Add: ITC Recapture			1,486
Less: RT Investment Cr			97,877
Net RT Tax			1,021,398
Total Tax Per Audit			3,157,948
Less tax previously assessed			8,726
TAX DEFICIENCY			3,149,222
STATUTORY DEFICIENCY			3,149,222

Comments:

COMPUTATION FOR NOTICE OF DEFICIENCY — Page 1

The Mead Corporation
Courthouse Plaza NE
Dayton, OH 45463

FEIN: 31-0535759
Tax yr begining: 1/1/93
Tx year ending: 12/31/93

FEDERAL TAXABLE INCOME			43,099,981
Exempt Interest Addition			3,123,906
IT and/or RT Addition			1,898
Other Additions:			0
US Gov't Interest Subtraction			439,736
Dividends (Sec 78, Sch J, Subpart F, Etc) Subtraction			4,283,903
Other Subtractions:			0
BASE/UNITARY BASE INCOME			41,502,146
Less: Nonbusiness Income			0
Partnership Income			-1,304,033
Apportionable Business Income			42,806,179
APPORTIONMENT	EVERYWHERE	ILLINOIS	FACTOR
Property Factor	4,901,751,100	90,940,688	0.018553
Payroll Factor	904,879,238	23,079,723	0.025506
Sales Factor	5,088,150,528	330,707,573	0.064996
Sales Factor	5,088,150,528	330,707,573	0.064996
Total Factors			0.174051
AVERAGE			0.043513
Illinois Business Income			1,862,625
Add: Illinois Nonbusiness Income			0
Illinois Partnership Income			0
Illinois NOL Carryback or Carryover			0
Illinois Base Income			1,862,625
Exemption and Illinois Net Income		45	1,862,580
Net Income and IT Tax @ 4%		1,862,580	74,503
Net Income and IT Tax @ .8%		1,862,580	14,901
Add: Investment Tax Cr Recapture			0
Less: IT Investment Cr			51,802
RT Tax Paid Cr			0
RT Tax Cr Carryforward			0
Net Income Tax			37,602
Illinois Base Income – RT			1,862,625
RT Addback		0	0
IL Base w/Adbk			1,862,625
Exemption and Net RT Income @ 2.5%		45	1,862,580
RT Tax @ 2.5%			46,565
Net Income and RT Tax @ .35%		0	0
Add: ITC Recapture			1,149
Less: RT Investment Cr			47,714
Net RT Tax			0
Total Tax Per Audit			37,602
Less tax previously assessed			68,551
TAX OVERASSESSMENT			-30,949
MINUS: Section 1003 interest on restricted loss C/B credit			486
STATUTORY OVERASSESSMENT			-30,463

Comments:

SCHEDULE OF INTEREST RATES UNDER THE ILLINOIS TAX ACT

INTEREST RATE

For periods prior to 9/8/75	–	6% rate.
For periods from 9/8/75 thru 1/31/76	–	9% rate.
For periods from 2/1/76 thru 1/31/78	–	7% rate.
For periods from 2/1/78 thru 1/31/80	–	6% rate.
For periods from 2/1/80 thru 1/31/82	–	12% rate.
For periods from 2/1/82 thru 12/31/82	–	20% rate.
For periods from 1/1/83 thru 6/30/83	–	16% rate.
For periods from 7/1/83 thru 12/31/84	–	11% rate.
For periods from 1/1/85 thru 6/30/85	–	13% rate.
For periods from 7/1/85 thru 12/31/85	–	11% rate.
For periods from 1/1/86 thru 6/30/86	–	10% rate.
For periods from 7/1/86 thru 12/31/93	–	9% rate.
For periods from 1/1/94 thru 6/30/94	–	7% rate.
For periods from 7/1/94 thru 12/31/94	–	8% rate.
For periods from 1/1/95 thru 6/30/98	–	9% rate.
For periods from 7/1/98 thru 12/31/98	–	8% rate.
For periods from 1/1/99 and thereafter	–	7% rate.

[LOGO] **Illinois Department of Revenue**
Springfield IL 62794

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Please open immediately & read carefully.

CERTIFIED
Z 176 099 906
MAIL

[EXHIBIT 7]

Mead

Corporate Communications Department
World Headquarters
Courthouse Plaza Northeast
Dayton, Ohio 45463
513-495-6323

NEWS

FOR IMMEDIATE RELEASE

Contacts: Elizabeth L. Russo
The Mead Corporation
(513) 495-3312

Paul Verbinnen/
Kris Lawas
Sard Verbinnen & Co.
(212) 687-8080

MEAD TO FOCUS ON FOREST PRODUCTS BUSINESS; PLANS TO DIVEST MEAD DATA CENTRAL

DAYTON, OH, May 16, 1994—The Mead Corporation (NYSE: MEA) today announced that its Board of Directors has made a strategic decision to focus on growing Mead's core forest products business: paper, pulp, packaging and paperboard, containerboard and distribution and school & office products. Therefore, Mead plans to divest Mead Data Central (MDC), the leader in electronic information best known for its LEXIS/NEXIS® online services.

Goldman, Sachs & Co. has been retained to assist Mead in evaluating divestiture alternatives to maximize the value of MDC for Mead's shareowners. Mead believes a sale of MDC to a strategic buyer is

the most likely alternative, but other options will also be considered. The divestiture is expected to be completed this year.

"This is a time of tremendous opportunity for Mead in the forest products industry," said Steven C. Mason, Chairman and Chief Executive Officer of Mead. "We believe we can maximize shareowner value by devoting all of our resources to what we know best. We also believe this is the ideal time to unlock the value of the LEXIS/NEXIS® franchise for the benefit of our shareowners.

"The decision to divest MDC—a unique asset in a rapidly developing industry—is a difficult one. We have grown it since 1968 from a small legal database into the world's premier provider of online legal information and the pioneer in computer-assisted news retrieval. The LEXIS/NEXIS® names are two of the most recognized and valuable brand names in business today. MDC is performing well and, in this information age, has substantial growth ahead of it. However, we are convinced that its growth potential—as well as opportunities for its employees—can best be realized independent of Mead."

He added, "In a sale scenario, we would use after-tax proceeds to continue strengthening Mead's competitive position in our core business. We are evaluating several possible uses, including focused acquisitions, further productivity and quality improvements, debt reduction and a stock buy-back. Mead's Board and management are fully committed

to increasing shareowner value in the near- and long-term."

Mead's focus on productivity improvements and emphasis on high-end, value-added paper and packaging products has worked to increase profitability in a cyclical business. Noting that Mead's core business performed well relative to peers in 1993 and the first quarter of 1994—a difficult period for the industry—Mason said: "At the beginning of an up cycle in our business, we are well positioned for strong sales and improving profitability in the U.S. and overseas."

With offices and operations in 30 countries, Mead is one of the world's leading manufacturers of forest products. In 1993, Mead had net income of $124.1 million on revenues of $4.8 billion. In the first quarter of 1994, Mead had net income of $27.6 million on revenues of $1.2 billion, up 8% and 2% respectively over the previous year.

Mead's Business

Paper

- *Mead Publishing Paper* provides book and magazine publishers, catalog printers and commercial printers with more than 500,000 tons of medium-weight coated paper each year. The division has developed a full line of recycled book and glossy grades in response to customer interest.
- *Mead Fine Paper* produces both coated and uncoated paper for business, printing and

specialty uses. The division is also a leading producer of carbonless paper.

- *Mead Specialty Paper* manufactures saturating papers for use in decorative laminates used in commercial and home construction, remodeling and furniture. It also manufactures specialty grades for use in various industrial applications, including automobiles.

- *Gilbert Paper* produces high-quality communications papers, including cotton-content bonds, and specialty text and cover papers.

Packaging and Paperboard

- *Mead Packaging* is a leading supplier of multiple beverage packaging and packaging systems. It also provides multiple packages of food and other products. Customers include large and small brewers, soft drink bottlers, food and other consumer products companies.

- *Mead Coated Board* manufactures coated paperboard for use in multiple packaging and folding cartons. Customers include folding carton manufacturers in North America, Europe and Asia, in addition to Mead Packaging's worldwide business.

- *Mead Containerboard* produces corrugating medium used in shipping containers and operates eight corrugated container plants.

Distribution and School & Office Products

- *Zellerbach* distributes paper, packaging materials and machines, and industrial/commercial supplies in 65 local markets throughout the United States.
- *Mead School & Office Products* is the nation's largest manufacturer of school supplies. It also provides stationery products for home and office use, and is an industry leader in fashion and product design.

Wood & Pulp

- *Northwood Investees (50%-owned)*: Northwood Forest Industries Ltd. in Canada and Northwood Panelboard Company in the U.S. produce pulp, lumber and oriented structural board for a global market. Mead and Noranda Forest Inc., a leading Canadian forest products company, each have a 50% share in both companies. Northwood Forest Industries operates one of the world's largest bleached softwood kraft pulp mills, five saw mills, a plywood plant and wood treatment plant. It is a major supplier of northern softwood pulp to Mead's U.S. paper mills and Noranda's Canadian mills. Northwood Panelboard's oriented structural board plant in Bemidji, Minnesota is one of the lowest-cost producers in the country.
- *Wood Resources*: Mead owns or controls more than 1.3 million acres of timberlands in the United States. These lands supply approximately 16% of Mead's wood requirements.

Mead Data Central (to be divested)

Mead Data Central, which was acquired by Mead for $6 million in 1968, is the world's largest provider of online information services for legal, news and financial information and a major force in the electronic publishing market. Hundreds of thousands of people are active users of the company's online services, legal print and CD-ROM products, electronic publishing software, and productivity software. MDC's online databases contain millions of documents from over 4,000 news, business, financial and law-related sources.

MDC pioneered the field of computer-assisted research in the early 1970s with its LEXIS/NEXIS® service. It has maintained its leadership role in the industry through continual expansion of its databases into legal, news, financial and public records, as well as through strategic alliances and investments in new information management technologies.

As part of its strategy to expand and enhance information for customers and to integrate with customer environments, MDC has recently made targeted investments in key information-related technologies and applications. In 1988, The Michie Company was acquired to expand legal content and is now leading MDC's services in CD-ROM publishing. The 1989 acquisition of Jurisoft, a legal software provider, has helped dramatically improve users' productivity and quality in compiling and verifying legal research. In 1993, MDC purchased Folio

Corporation, a Utah-based pioneer in the development of PC and LAN-based electronic publishing software. Today, Folio's software is used by many companies to manage mission-critical internal information and by publishers to electronically publish on CD-ROM.

MDC is setting a new standard for efficiency and ease of use in database searching. Recent developments include an improved graphic interface, which takes full advantage of Microsoft's Windows™ technology, and MDC's innovative FREESTYLE™ feature, which allows users to search using plain English rather than traditional search commands.

In expanding the variety of services it offers, MDC has entered into strategic marketing and product joint ventures with providers of various PC-based technologies, including AT&T, WordPerfect Corp., Lotus Development Corp., American Lawyer Media, and General Magic. General Magic, a multimedia software company whose partners include AT&T, Matsushita, Apple, Sony, Motorola and Philips, is developing a personal information "appliance" for electronic communications and information retrieval. In addition, MDC and Disclosure Incorporated have just announced plans to offer jointly a series of products utilizing Securities & Exchange Commission filings, including data from its Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.

[EXHIBIT 8]

Dayton Daily News

Volume 117
Number 249

Dayton, Ohio, Tuesday,
May 17, 1994

The First Cox
Newspaper

MeadDataCentral

Exiting info highway

Mead to sell data unit, concentrate on forest products

[Pictures And Caption Omitted In Printing]

Valley's high-tech image at stake

By Mike Casey
DAYTON DAILY NEWS

Mead Data Central's proposed sale adds uncertainty to the local economy and raises questions about the area's future as a high-tech center.

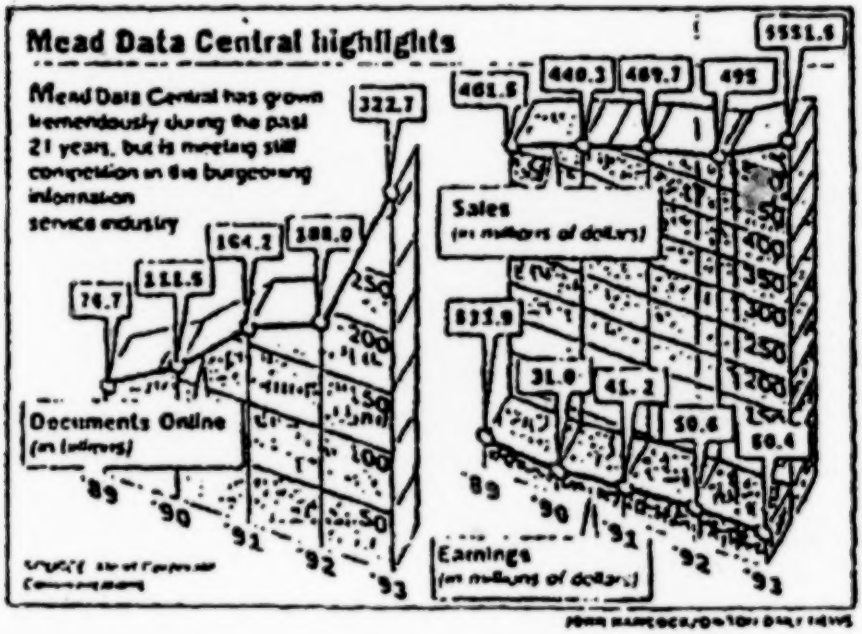
"The risk of it going is a real one," said John Weiler, director of the Center for Business and Economic Research at the University of Dayton.

Weiler said a purchaser in a similar field may decide to combine Mead Data's operations in another location. An information-service business is easy to move.

But Mead Data is important to the local economy. The Miami Twp. business employs 2,000 locally and Wright State University estimated the

company's local business generates another 1,500 to 2,000 area jobs.

What's more, it is a critical part of the area's future. Battelle, a Columbus think tank, said the Dayton economy has "high-growth potential" in information systems and software system design.



Battelle, hired by the Dayton Area Chamber of Commerce to study the area's economy, identified Mead Data as part of a 7,500-employee cluster of local institutions in those industries. Others are AT&T Global Information Solutions (formerly NCR), Reynolds and Reynolds Co. and Wright-Patterson Air Force Base.

Losing a premier institution could hurt efforts to attract other high-tech companies.

"We're trying to say, 'Dayton is a place to develop high-tech,'" Weiler said. "If we lose Mead Data Central . . . it says something negative about that concept."

The pending sale should not be counted as a loss, though.

Mead Corp. Chairman Steven Mason said a purchaser "will be intent on growing the business." The buyer may decide to expand the business in Dayton because of the existing buildings and personnel.

But he said Mead has not demanded that the buyer keep the business in the Dayton area.

Dayton has seen other home-grown businesses disappear.

In 1981, Carlson Marketing Group purchased locally based E.F. MacDonald, a travel and sales incentive company. Ten years later, Carlson transferred work to Minneapolis and Dayton lost 800 jobs.

"We know what can happen when you lose local control," said Jane Dockery, acting director of the Center for Urban and Public Affairs at Wright State.

Miami Twp. officials, however, said they weren't overly concerned, even though Mead Data Central paid $527,000 in property taxes last year to Miami Twp. and more than $1 million to the Miamisburg School District.

They said if the company relocates, the buyer will continue to owe property taxes. Township President Shirley Omietansky said the township also has the Dayton Mall, a major source of property tax revenue.

Mead Data employees didn't say much about the news. "They've told us not to talk to anyone about it. We're not supposed to talk to each other about it," said an employee who was eating at a nearby restaurant.

GETTING LESS HIGH TECH

- **Company:** Mead Corp.
- **Headquarters:** Courthouse Plaza Northeast, Dayton 45463
- **Chairman, CEO:** Steven C. Mason
- **Sales:** $4.8 billion (1993)
- **Net Income:** $124.1 million (1993)
- **Assets:** $4.2 billion
- **Employees:** 19,600
- **Telephone:** 495-3648
- **Fax:** 495-4088
- **Mead businesses:**

□ Mead Publishing Paper—coated papers for printing

□ Mead Fine Paper—business papers

□ Mead Specialty Paper—decorative papers

□ Gilbert Paper—high-quality communications papers

□ Mead Packaging—paperboard for beverage packages

- Mead Coated Board—paperboard for folding cartons
- Mead Containerboard—corrugated medium for boxes
- Zellerbach—paper distributor
- Mead School & Office Products—nation's largest supplier
- Northwood (50 percent owned)—produces pulp and lumber
- Wood Resources—1.3 million acres of timber land

■ **What happened:** Mead Corp. announced it will sell or spin off its high technology Mead Data Central division to focus on its core business, forest products.

■ **STAFF WRITERS** Timothy R. Gaffney and Jonathan Brinckman contributed to this story.

3,800 workers include 2,000 employed here

By Jim Bohman
and Jim Dillon
DAYTON DAILY NEWS

Mead Corp. announced Monday it will exit the increasingly hectic information superhighway and refocus on the quieter confines of its expanding forest products business.

The Dayton-based paper company, which pioneered computer data banks for lawyers and the

news media, said that it will either sell or spin off its profitable Mead Data Central unit by year's end.

"It's probably the toughest decision I've ever had to make," said Steven C. Mason, chairman and chief executive of Mead Corp. "You have two very good businesses, and you're trying to figure out how to maximize both of them."

Mason said he recommended the divestiture during a board meeting Saturday. Directors, he said, unanimously approved the move.

Mead Data's 3,800 employees learned of the decision Monday morning when they turned on their computers at company headquarters and at offices around the world. Electronic mail messages beckoned them to meetings about the sale.

"I don't think we're abandoning the (information) highway per se," Mason said. "We're saying the direction we're going to go will focus on 90 percent of our business."

No single event or decision triggered the move, Mason said. Instead, the decision was made after a long review of how Mead Corp. could best "maximize its value," Mason said.

"We've talked about this for a long time," Mason said of the proposed sale. He declined to be more specific.

Proceeds from the sale, which Mason declined to estimate, could be used for variety of purposes. The

money could be reinvested in the core business, used for a stock repurchase, paid out to shareholders as a special dividend, used to reduce debt or to make acquisitions. Mason, in a meeting with securities analysts Monday in New York, did not rule out considering purchase of a European paper mill.

Analysts estimated that Mead Data, with 2,000 local employees, could bring a price of about $1 billion. Possible buyers include companies in the publishing and telecommunications industries. AT&T is among those mentioned. Officials at the telecommunications giant declined comment.

"This is a time of tremendous opportunity for Mead in the forest products industry," Mason said. "We believe we can maximize share-owner value by devoting all of our resources to what we know best."

Acquired by Mead in 1968 for $6 million, Mead Data now is one of the world's largest providers of online information services.

"You have to understand that MDC is about 10 percent of our business, so it's a relatively small part of the company," Mason said.

In New York Stock Exchange trading Monday, Mead Corp. stock advanced 1¼ to close at 44 ½.

Kathryn McAuley, a forest products analyst with Brown Brothers Harriman in New York, said industry experts for years anticipated the sale of MDC because it was an odd appendage for a paper company.

McAuley said she gave Mead a "buy" rating in March, based in part on her speculation that the time might be ripe for the sale of Mead Data. But she said Monday she was stunned at how correct she was.

The profit potential for selling the division and making it into a separate, public company caught McAuley's attention. The analyst said MDC might bring a sale price of $1.1 billion.

McAuley estimates that MDC will contribute about 40 cents per share to the $2.75 per share she forecasts Mead will earn in 1994. Last year the company earned $2.08 per share.

Why exit a business of the future? "Maybe it's time for Mead Data Central to be partnered with somebody who has more synergistic contributions to make," McAuley said.

Anticipating the fast-moving future of telecommunications "no doubt is very different and very difficult for executives whose chief concerns are pulp and paper," the analyst said. "Mead Data Central needs to grow in a different fashion from paper."

Whoever buys Mead Data will acquire a veritable gold mine of potential products, said Barbara Quint, editor of Searcher magazine and an authority on information services. Quint said other "supermarket" type information services have caught up with Mead Data and become very competitive with it.

MEAD DATA CENTRAL

- **Headquarters:** 9393 Springboro Pike, Miami Twp.
- **President:** Rodney L. Everhart.
- **Sales:** $551.5 million (1993).
- **Profits:** $50.4 million (pre-tax).
- **Assets:** $459 million.
- **Employees:** 3,800 (2,000 Dayton area).
- **MDC business:** World's largest supplier of on-line legal, news and financial information.
- **Phone:** (513) 865-6800.
- **Fax:** (513) 865-7476.
- **Stock:** To follow trading in Mead Corp. shares, (MEA-NYSE) call the *Dayton Daily News* StockQuote Hotline on a Touch-Tone telephone. Call 463-4636, then enter 4000, then 1, then 61-32-21-*.

■ **What is Mead Data Central?** It is an electronic publisher of legal, business and financial news and information. Its Lexis and Nexis information retrieval services are used by professionals worldwide. 1993 sales were $551.3 million, up 11 percent from 1992. Page 5B.

■ **Why Mead Data Central being sold?** Steve Mason, Mead's chief executive officer, said Mead's objective is to "maximize shareholder value" and devote resources to the company's core forest products business.

■ **What does it mean for the Miami Valley?** Mead Data Central, which has 2,000 employees

locally, is a mainstay of the region's information and software systems industry, which includes AT&T, Reynolds & Reynolds, Standard Register and Wright-Patterson Air Force Base. Losing Mead would be a blow to this business cluster and the area economy.

■ **Who are the likely buyers?** Telecommunications concerns such as AT&T or regional telephone companies and electronic information companies such as West Publishing Co., which has a legal publishing arm.

■ **When will it be sold?** Mead hopes to complete the sale by year's end. Goldman, Sachs Co. of New York has been retained to find potential buyers. Page 5B.

■ **Mead stock:** To follow trading in Mead Corp. shares (MEA-NYSE), call the *Dayton Daily News* StockQuote Hotline on a TouchTone telephone. Call 463-4636, then enter Ext. 4000. Then key in 61 32 21.

■ **Speak up!:** Want to get something off your chest about the decision to sell Mead Data? If you have a TouchTone phone, please call 463-4636, then key in 1041. You'll have 45 seconds to make your point.

[EXHIBIT 9]

MeadDataCentral

'Now is the right time for Mead Corp. and the right time for MDC. It's the right time to maximize the value of both sides of this equation.'

Mead CEO Steven C. Mason

[Pictures And Captions Omitted In Printing]

Mead plans future on paper

By Jim Dillon
and Jim Bohman
DAYTON DAILY NEWS

For Mead Corp. directors, it is time to cash in the company's computer chips and concentrate on growing its core paper business, Mead Corp. Chairman and CEO Steven C. Mason said Monday.

For years, Mead Data Central dominated the electronic information market. In recent years, however, competitors such as Dialog, West Publishing and CD-ROM publishers have cut into that market share, stealing customers and introducing cheaper, more user-friendly ways of retrieving information.

Mead Corp., MDC's parent, apparently saw the handwriting on the wall last year and started re-evaluating Mead Data's performance and products.

Mead Data eventually laid off 400 employees, but hired more sales people and formed new alliances

with information providers, including *The New York Times* and American Lawyer Media.

More needs to be done, industry watchers said.

"Mead has always done a lot of fixing of its product, but they haven't done anything near what they must to reach a real mass market," said Barbara Quint, editor of *Searcher* magazine and an authority on information services. "Mead needs to add graphics, images and more natural language linkages, so people get answers, not just documents."

Still, Mead's decision to sell Mead Data Central comes as a surprise, said Mon Hatfield, editor of *News Library News*. "I would have thought this was one of their growth industries."

Mason said, "Now is the right time for Mead Corp. and the right time for MDC. It's the right time to maximize the value of both sides of this equation."

Mead Corp. pioneered the computer information and news retrieval service with NEXIS and LEXIS in 1973. Employment has grown to 3,800 worldwide, with 2,000 workers locally.

LEXIS is a data bank containing much of the world's law books, while NEXIS provides a computer database of articles from leading newspapers, magazines and other publications worldwide. Subscribers pay fees to search and use information from the data bases. Sales last year were $551.5 million.

MDC's pre-tax profit last year was $50.4 million, while total net profit of Mead Corp. was $124.1 million.

Potential buyers not lacking

By Mike Casey
DAYTON DAILY NEWS

Many companies in publishing and telecommunications will be interested in buying Mead Data Central, according to industry analysts.

"After all, it is the premier electronic publishing business," said Kathryn McAuley, a forest products analyst with Brown Brothers Harriman in New York. "I would feel that anyone who is in the field of electronics or in publishing would be likely buyers."

Any of the companies Mead has relationships with could be on the list, she said. They include AT&T, WordPerfect Corp., Lotus Development Co., General Magic, American Lawyer and Disclosure Inc.

She said AT&T might be a potential buyer "since Mead Data Central has several projects going with AT&T."

POSSIBLE BUYERS

■ **American Telephone & Telegraph Co. of New York:** Sales $67 billion. The world-wide communications giant is looking to get bigger. Company declined comment.

■ **Baby Bells:** The regional telephone companies want to participate in communications growth. Representatives for Ameritech, Bell Atlantic and Bell South declined comment.

■ **Time Warner of New York:** Sales of $6.5 billion. A major company in publishing information and entertainment. Spokesman not available.

■ **West Publishing Co. of Eagan, Minn.:** This direct Mead Data Central competitor does not release sales figures. Representatives said company "always looking for acquisition opportunities."

[EXHIBIT 21—Excerpts]

Auditor's Comments
The Mead Corporation

Nonbusiness Income

The taxpayer did consider gains and loss from the sales of intangibles as nonbusiness income. On January 1, 1994, Mead Data Central Inc. was merged into Mead Corp. They operated as a division of Mead prior to its sale on December 2, 1994. Mead also sold all of their subsidiaries whose business was associated with the electronic publishing business. It was determined all of the income should be classified as business income.

Since the taxpayer considered in the past all these companies to be unitary in their group, the income from the sale of these companies would be considered to be apportionable income. This meets the functional test in determining business income as discussed in The Kroger Company vs Department of Revenue court case. The taxpayer also disposed of other subsidiaries during the audit period and considered those transactions to be business income.

The dollars involved in the Mead Data Central and related companies was influencing the taxpayer's decision in classifying this transaction as nonbusiness.

See additional information that follows this report that includes ICU recommendation and TP position. There are also BOD meeting minutes.

Partnership Income

The taxpayer was associated with several partnerships. The Northwood Panelboard Company was a partnership that was considered to be unitary with this unitary group. There were 2 other partnerships, Cabin Bluff Partners and Cabin Bluff Management Co. that were in different lines of business and there was no centralized service functions. Those 2 partnership income/loss was allocated.

Factors

Property

Total combined property consisted of inventory, fixed depreciable assets, depletable assets and land, at cost, net of construction in progress and capital leases plus capitalized rent expense. To ensure consistency between everywhere and Illinois values, the components of the property factor were derived from sources which detailed values by state.

Payroll

Total combined payroll consisted of salaries and wages paid to all employees. The source of the payroll was the taxpayer's appointment workpapers. Illinois wages were calculated from the same source.

Sales

Total combined sales, per audit, consisted of gross receipts generated from all operations which produced business income. The include receipts, dividends, rents, royalties, interest, gains/loss from Schedule D, receipts from 4797 and other intangible income. The intangibles were included in the calculation since the taxpayer could identify the income producing activity and where that activity took place.

The Illinois sales, per audit, consisted of tangible sales destined for Illinois and Illinois services where the majority of the income producing activity was in Illinois. The taxpayer did not include service sales in other states that Illinois Code Inc. made to other states Illinois Code was not taxable. Those Illinois Code sales were considered Illinois.

An adjustment to the Illinois sales was made to include a portion of the tangible assets from the sales on Mead Data Central. Since the taxpayer could not identify the receipts by location, a percentage of Illinois to total MDC assets were applied to the receipts from the sale of tangible MDC assets.

Since all aspects of a business contributes to its goodwill, the Illinois property, payroll and sales percentage of MDC was used to calculate the portion of the gain of goodwill that would be attributable to Illinois.

Replacement Tax Investment Credit

The taxpayer claimed RT credit for both audit years but had not included proper support and Processing did not allow any of the credit. There was also allowable credit carryforwrd [sic] from prior years. This was verified from the prior Illinois audit.

Income Tax Investment Credit

The taxpayer claimed credits for their Chicago, IL. manufacturing plant. The prior Illinois auditor had called Illinois to verify the location was in the enterprise zone. All amounts claimed were allowed.

RT Investment Credit Recapture

There were assets claimed for their credit in 1993 by Illinois Code Inc. That company was sold during that year. Since the assets were not used 48 continuous months the credit was recaptured. Assets used by Mead Data Central that were claimed in 1993 and 1994 for the credit were also recaptured since Mead sold the company in December 1994.

Conclusion

The audit results were discussed with Ginger Bolser, state income tax compliance manager for Mead. The taxpayer has indicated from the beginning that would not agree with reclassifying the gain from the sale of MDC as business income. The auditor supplied a ICU application.

There was an ICU meeting with Mike Kinasz in October 20, 1997. It was determined we needed to read board of directors meeting minutes and the partnership agreement. This was done in January and copies were sent to Mike.

A letter from Mike follows this report.

If it is determined the gains are nonbusiness income. A portion of the gain should be allocated to Illinois. Schedule XI-b shows the calculation of the Illinois amounts that were included in the sales factor. This same schedule can be used to determine the amount of gain the belongs to Illinois if the gain is nonbusiness.

Unagreed Issues

See non-business section for unagreed issue and the conclusion section above.

The other issue was the taxpayer did not feel Northwood Panelboard partnership was not unitary with this group of companies. Copies of the partnership agreement are inclosed in the audit package. It supports that Mead Panelboard Inc. (partner) did exert management control over the partnership.

Audit Results

	Tax	Interest
12/31/93	–30,993	–9,438
12/31/94	3,149,195	820,393

Fred Murray 2/20/98

/s/ Fred Murray

[EXHIBIT 23—Excerpts]

[All Pictures And Captions Omitted]

The Mead Corporation
and Consolidated Subsidiaries
1993 Annual Report
to Shareowners

The Mead Corporation is one of the world's largest manufacturers of paper, producing more than 1.2 million tons annually for printing and business use; a long-established leader in coated paperboard and multiple packaging; a $1.6 billion distributor of paper packaging and business supplies made by manufacturers throughout the world; the largest maker of paper based school and home-office supplies; the developer of the world's leading electronic information retrieval services for law, patents, accounting, finance, news and business information.

Contents

	Summary Data
	Mission Statement
1	Letter to Shareowners
3	Mead Theme Pages
16	Environmental Statement
18	Operations Review
25	Financial Review
29	Financial Statements
44	11-Year Review
46	Board of Directors

47 Mead Management
48 Shareowners' Information

To Our Shareowners

NINETEEN NINETY-THREE was a year of progress for Mead. This was evident in our financial performance. Our most important achievements, however, are not yet so obvious. We've set higher expectations for ourselves in many areas, and generated significant learning around our three key success drivers. Results in these areas have set the foundation for future performance and will have a long-term impact on The Mead Corporation.

While our financial results improved compared to 1992 and placed us in the top quartile of our industry, we fell short of the expectations we established for ourselves at the beginning of the year. The economy around the world did not develop as we anticipated, corporate taxes increased, and many of our product lines suffered from over capacity. Especially hard hit were our pulp and uncoated paper grade lines. Prices were very competitive across the board, and we experienced real price declines in many areas. A notable exception was our wood products business, which enjoyed a very strong market throughout the year.

The change effort we began in 1991 is beginning to take hold. We made a commitment to you then that this effort and vision for the future would make a meaningful difference. It has. We began to measure our progress two years ago against the three key

initiatives we put in place at that time: customer satisfaction, productivity improvement and high performance management.

Total Customer Satisfaction. Independent outside surveys clearly show that the focused programs that are underway to better meet our customers' needs are working. Improved results are measured in an absolute and relative sense. For example, Mead Containerboard's medium system moved to a preferred position with customers, and we've made an outstanding leap forward in our NEXIS® information business. We are on the right track and are resolved to continue and redouble our efforts.

Total Productivity Improvement. Gains in productivity impact financial performance and often improve customer satisfaction. Our value-added productivity increased by 2.5% in 1993—about five times better than we've done in the past few years. Significant progress but still below our 3% goal. An outstanding example is our Escanaba mill, which nearly overcame a 10% price decline with productivity improvements. These achievements come from the combined efforts of many Mead employees who take pride in finding ways to work better and more efficiently.

High Performance Management. High performance management is harder to quantify. Our goals are to improve the way we select, grow and develop people; to provide a creative environment that fosters world-class performance; and to eliminate

barriers to meeting our customers' needs and Mead's financial objectives. Mead employees are rethinking and redefining key business processes that are vital for our future success. We've identified a lot of non-essential activity--we

* * *

1 Zellerbach's packaging unit provides customers with production line solutions and technical expertise. To hone that edge, sales and technical teams like Adam Meyer, Jr. and Jim Kronk shown here, are continually updated on the latest equipment and packaging solutions at the division training facility, making them more productive in front of customers—and helping customers become more productive long after the sales call ends.

2 Mead Data Central International opened a new processing facility in London during 1993, and added dozens of new international databases to the more than 250 already in the NEXIS® service. The facility brings MDCI closer to its international customers and to major newspapers, wire services and business publications outside North America. This means MDC can build new international databases faster, and more efficiently, with current information tailored to meet customer needs—wherever they are in the world.

* * *

1 Mead Containerboard and Mead Specialty Paper qualified for ISO 9000 status during 1993—the first Mead divisions to do so. High performing teams at both

divisions addressed the total manufacturing process and pinpointed specific improvements needed in order to meet the international quality management and assurance standards set by the International Standards Organization (ISO). International expansion offers important new opportunities for both divisions.

2 In response to customer requests for more ways to access the NEXIS®/LEXIS® databases, MDC introduced Easy-Search™, Table of Contents and FREESTYLE™ as alternatives to Boolean logic searching. FREESTYLE™, developed by a high performing team in record time, allows researchers to retrieve information using plain English inquiries.

3 Splicing together customer satisfaction with standard operating procedures, a high performing team from Publishing Paper responded to customer complaints by investigating accounting, quality control and production data then developing standardized procedures that would eliminate splice failures. By improving roll splices, Escanaba paper performs better on the printing press satisfying a crucial customer need. In front, left to right, Mead employees, Rod Deiter, Charlie Becker, (back row) Mike McDonald, Greg Kutha, Norm Boutilier, Kathy Krebs, and Sally Manning.

4 Consistently matching art directors' color specifications with the final printed product is a packaging challenge. A high performing team from Mead Packaging, Ink Products and Coated Board created standardized process colors and a new color

chart shown here that allows customers to see how specified colors will print on actual Mead coated board, which is used for packaging. What the art directors specify today is what they get on the shelf.

* * *

Review of Operations

The Mead Corporation and Consolidated Subsidiaries

Five-Year Data on Results of Operations

(All dollar amounts in millions, except per-share amounts)	YEAR ENDED DECEMBER 31				
	1993	1992	1991	1990	1989
Net sales	$ 4,790.3	$ 4,703.2	$ 4,579.3	$ 4,772.4	$ 4,608.2
Earnings from continuing operations	124.1	37.6	75.6	106.4	247.3
Net earnings	124.1	71.6	6.9	38.5	215.8
Per common share:					
Earnings from continuing operations	$ 2.08	$ .63	$ 1.29	$ 1.71	$ 3.80
Loss from discontinued operations			(.17)	(1.20)	(.47)
Extraordinary item				.11	
Cumulative effect of change in accounting principle		.58	(1.00)		
Net earnings	$ 2.08[1]	$ 1.21[2]	$ .12[3]	$ .62[4]	$ 3.33[5]
Effective tax rate on earnings from continuing operations	42.5%	43.1%	36.7%	35.6%	36.8%
Return on average total capital:*					
Earnings from continuing operations	6.3%	3.6%	5.3%	6.0%	11.8%
Net earnings	6.3%	4.8%	2.8%	3.5%	10.5%
Return on average equity:					
Earnings from continuing operations	8.1%	2.5%	5.0%	6.6%	15.5%
Net earnings	8.1%	4.8%	.5%	2.4%	13.5%

(1) Includes $7.6 ($.12 per share) charge related to the revaluation of deferred income taxes at January 1, 1993, resulting from 1993 income tax legislation

(2) Includes $17.7 ($.30 per share) loss from sale of Ampad and $58.9 ($1.00 per share) charge related to the comprehensive performance improvement program

(3) Includes $21.6 ($.37 per share) charge related to environmental matters and business consolidations, and a $26.4 ($.45 per share) gain from the sale of Micromedex, a medical information business

(4) Includes $56.2 ($.89 per share) charge related to the valuation of non-productive assets and costs of an early retirement program

(5) Includes $15.5 ($.23 per share) gain from sale of Mead Release Products

*Calculated by dividing net earnings plus interest and debt expense, net of taxes, by shareowners' equity plus long-term debt

Management's Discussion and Analysis

Overview of 1993

Despite negative market conditions facing most of its businesses, Mead's earnings improved over 1992 and 1991 levels. Driving the earnings increase were significantly improved results from Mead's Northwood affiliates; the large paper mills in Escanaba, Michigan, and Chillicothe, Ohio; and the Coated Board and School and Office Products divisions. Earnings from Mead's Containerboard, Packaging and Zellerbach divisions were lower than 1992 results.

Sales increased as a result of higher levels of sales volume in many businesses. Pricing pressures continued into 1993 for almost all operations resulting in lower average prices in 1993 than in 1992 and 1991. Pulp prices, which plunged in 1991, deteriorated even further in 1992 and 1993. The exception for pricing was Mead's affiliate, Northwood Forest Industries, where wood products' prices increased significantly in 1993 compared to 1992 and 1991, and provided the impetus for Northwood's earnings improvement.

Within Mead's paper operations, sales volumes were higher than 1992 and 1991 but average selling prices, continuing 1991's downward trend, were slightly lower, reflecting the lackluster economy and large increases to industry capacity in recent years.

Mead Coated Board's volume grew in 1993 as it did in 1992 and 1991. Mead Packaging's sales dropped from the 1992 level due in large measure to increased competitive pressures on pricing and weaker foreign market and currencies. The Containerboard Division was adversely affected by lower prices across its businesses, despite volume increases in the converting markets, and continued strong operations at the Stevenson, Alabama corrugated medium mill.

Market difficulties in the paper and industrial/ commercial supplies businesses continued to affect Zellerbach, Mead's nationwide network of paper merchant distributors. Improvements in productivity and cost reduction actions did not offset the effect of deteriorating prices.

Mead School and Office Products had another good year in 1993, with earnings higher than in both 1992 and 1991. The division liquidated the inventory purchased from Union Camp's school and office products business, contributing marginally to its favorable results.

Mead Data Central revenues grew 11% in 1993. However, strategic investments to enhance the features and functionality of its services, as well as expenditures for new product development and sales force restructuring, offset the effect of sales growth resulting in little earnings change from 1992.

Operating Results

Sales increased to $4.790 billion in 1993, compared to $4.703 billion in 1992 and $4.579 billion in 1991. The gains for both 1993 and 1992 were achieved despite the effects of lower paper prices and the sale of Ampad Corporation in July, 1992.

Earnings Per Share Analysis

	1993	1992	1991
Comparable earnings	$2.20	$1.93	$1.21
Other expenses		(1.00)	(.37)
Sale of business		(.30)	.45
Effect of tax rate change on deferred tax balance at beginning of year	(.12)		
Earnings from continuing operations	2.08	.63	1.29
Discontinued operations			(.17)
Cumulative effect of change in accounting principle		.58	(1.00)
Net earnings	$2.08	$1.21	$ .12

Comparable earnings were up almost 14% in 1993. However, the effect of the 1993 corporate tax rate increase of 1% on deferred taxes at January 1, 1993, negatively affected Mead's 1993 earnings from continuing operations by $.12 per share.

1992 comparable earnings were significantly improved over 1991 levels. The following items reduced 1992 earnings from continuing operations:

- A comprehensive performance improvement program resulted in an after tax charge of $58.9 million, or $1.00 per share.
- A $17.7 million after tax, or $.30 per share charge, represented a loss on the sale of the Ampad office products business.

In 1991, the $.37 per share charge related to costs for changing environmental requirements, business consolidations and the writeoff of certain engineering costs. The $.45 per share gain relates to the sale of Micromedex.

In 1992, Mead adopted Statement of Financial Accounting Standards (SFAS) No. 109, requiring the determination of all income tax liabilities at current rates. The effect of adopting the new standard was an increase in net earnings of $34 million, or $.58 a share. In 1991, earnings were negatively impacted by adjustments affecting Mead's discontinued reinsurance business, and adoption of SFAS No. 106 related to postretirement benefits.

In 1993, the company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Adoption had no impact on the company.

Depreciation, amortization and depletion of property, plant and equipment amounted to $261 million in 1993, compared with $246 million in 1992 and $236 million in 1991.

Paper

Segment Summary

($ millions)	1993	1992	1991
Sales	$1,111.4	$1,090.6	$1,091.3
Comparable earnings	101.9	85.6	112.8
Other expenses		(22.3)	(20.7)
Earnings before income taxes	$ 101.9	$ 63.3	$ 92.1

Mead's paper segment earnings improved 19% on a comparable basis versus 1992, driven by strong operating results at the Chillicothe and Escanaba mills. Sales increased 2% in 1993 to $1.11 billion. Volume increased by about 11%, although prices across the board continued to be depressed. In 1992, sales were essentially flat compared with 1991, despite a 3% volume increase.

Industry capacity for coated paper in North America increased 8% during the last two years. Coated paper prices decreased slightly from 1992 throughout the industry. The American Forest and Paper Association (AF&PA) reports that total coated paper capacity will grow 3% in 1994 and 2% in 1995. As general economic conditions improve, demand is expected to outpace capacity growth, relieving some price pressures.

Mead Publishing Paper

The Publishing Paper division provides book and magazine publishers, catalog printers and commercial printers with more than 500,000 tons of medium-weight coated paper each year. The division has developed a full line of recycled book and glossy grades in response to customer interest.

Sales volume increased due to improved order volume. While pricing was flat for 1993 when compared to 1992, the division's earnings grew significantly as a result of reduced costs and improved operating efficiencies. In 1992, sales were approximately 9% lower than 1991, and earnings dropped considerably as well. In spite of some optimism about economic recovery, the publishing industry is predicting modest growth, at best, but not enough to absorb a continuing over-supply of paper.

To upgrade the product mix and improve quality, Mead is investing $115 million in two major capital projects that are expected to be completed in 1994 and 1995.

Mead Fine Paper

Mead Fine Paper produces both coated and uncoated papers for business, printing and specialty uses. The division is also a leading producer of carbonless paper.

Continued weak market conditions and depressed prices held sales growth to a modest increase for the

division's Chillicothe, Ohio, mill. However, improved productivity and good cost controls, due in part to capital investments and performance improvement efforts, resulted in significantly increased operating profit for the division. Additional savings and productivity increases are expected for 1994 as a result of continued cost reduction efforts and the effects of capital investment. Mead is investing $111 million to upgrade its coated sheet quality. Earnings growth is expected to be moderate in 1994 in light of the pricing conditions. Despite weak market conditions and depressed prices, 1992 sales were up 6% compared to 1991, while earnings were flat.

The Kingsport, Tennessee, mill continued to be hit hard by market conditions. The mill did not run as well as anticipated in 1993. Sales decreased slightly, and operating results fell significantly compared to 1992.

Mead Specialty Paper

Mead Specialty Paper manufactures saturating papers for use in decorative laminates used in commercial and home construction, remodeling and furniture; and specialty grades in various industrial applications including automobiles.

Sales for 1993 were up slightly from 1992 levels while earnings decreased. Excess global capacity and poor economic conditions in Europe limited growth in 1993. Cost reduction efforts could not offset operating inefficiencies associated with the start-up of a

capacity expansion project completed early in the year.

The U.S. housing, remodeling and auto production markets were stronger in 1993 than 1992 and these industries are forecasting a continuation of this trend. The division reported increased sales and earnings in 1992 compared to 1991.

Mead's Specialty division obtained ISO 9001 certification by meeting a set of international standards designed to improve product quality and consistency.

Gilbert Paper

The Gilbert Paper division produces high-quality communications papers, including cotton-content bonds, and specialty text and cover papers.

Gilbert reported slightly lower sales and earnings in 1993 due to reduced volume, a less profitable product mix, merchant consolidations and the weak economy. Productivity initiatives and performance improvement efforts should result in improved 1994 earnings. Sales of recycled grades and laser-compatible sheets continue to grow, as does potential for export growth.

The division reported a modest gain in 1992 sales compared to 1991, while earnings remained flat.

Packaging and Paperboard

Segment Summary

($ millions)	1993	1992	1991
Sales	$1,156.9	$1,163.2	$1,022.8
Comparable earnings	132.8	140.9	106.1
Other expenses		(23.8)	(1.6)
Earnings before income taxes	$ 132.8	$ 117.1	$ 104.5

Sales were essentially flat at $1.16 billion in 1993, and comparable earnings decreased 6%. Sales in 1992 rose 14% over 1991, while comparable earnings increased more than 32%.

A weak global economy and heightened competition leading to pricing pressures were key factors inhibiting growth in this segment. While cost improvements were significant across the divisions, they were not enough to combat difficult market conditions brought on by overcapacity.

Mead Packaging

Mead Packaging is a leading supplier of multiple beverage packaging and packaging systems. It also provides multiple packages of food and other products. Customers include large and small brewers, soft drink bottlers, food and other consumer products companies.

Lower brewery volume and lower than expected growth in the soft drink area, as well as price pressures, contributed to decreased sales and significantly reduced earnings for 1993 in North America. 1992 sales and earnings were flat compared with 1991.

International earnings were near 1992 levels. Exchange rates, weak European and Japanese economies, and increased pricing pressures were offset by good cost controls.

An ongoing series of cost-effective packaging systems solutions is expected to enhance the division's position with customers overall. To counter worldwide competition and continuing price pressures in the future, the division is intensifying ongoing cost reduction efforts and investing additional capital on productivity improvements for 1994.

Packaging opened subsidiaries in Mexico and Brazil in 1993 and increased its business in Australia. Groundwork has also been laid for new operations in Argentina, Chile and Poland for 1994, as well as other points around the globe.

Mead Coated Board

Mead Coated Board manufactures coated paperboard for use in multiple packaging and folding cartons. Customers include folding carton manufacturers in North America, Europe and Asia, in addition to Mead Packaging's worldwide business.

1993 was the third full year of operation for the expanded Mahrt mill in Alabama. Production increased more than 5% to exceed designed capacity of 800,000 tons. More significantly, production of first quality coated board increased by over 13% as operating efficiency and quality improved, and as sales increases eliminated the need to fill capacity with uncoated board. Despite weaker market conditions worldwide in 1993, sales volume increased 5% primarily due to the folding carton business worldwide. As a result of quality, cost and productivity initiatives, and more favorable results from the division's related wood products operations, earnings significantly improved. However, competitive pressures in the global board market have eroded prices for CNK® paperboard, Mead's coated natural kraft board. Sales rose 14% in 1992 and earnings rose compared to 1991.

The global market for coated paperboard is expected to grow modestly over the next few years. Mead Coated Board, however, expects its sales growth to be above the industry average as market development efforts of the past couple of years take hold.

Mead Containerboard

Mead's Containerboard division produces corrugating medium used in shipping containers and operates eight corrugated container plants.

Solid volume growth in the converting business and good cost controls at the medium mill could not

offset the effects of oversupply and price deterioration in both the medium and converted box markets. While sales were flat, earnings decreased compared to 1992. The division doubled its earnings in 1992 compared to 1991.

Independently conducted surveys in customer satisfaction showed the division's medium system has moved to preferred status with its customers. Its Stevenson, Alabama, mill obtained ISO 9002 certification.

Containerboard's inventory levels are stable and demand is on the upturn. It is expected that prices will solidify in 1994, and that additional productivity improvements will drive earnings improvement.

Distribution and School and Office Products

Segment Summary

($ millions)	1993	1992	1991
Sales	$1,970.7	$1,954.6	$1,995.7
Comparable earnings	38.4	45.6	36.3
Other expenses		(16.3)	(9.2)
Earnings before income taxes	$ 38.4	$ 29.3	$ 27.1

Sales increased to $1.97 billion for the Distribution and School and Office Products segment while comparable earnings were down 16% in 1993 versus 1992. Sales include those resulting from the liquidation of inventory purchased from Union Camp's school and office products division. Zellerbach's performance in a

poor market and costs associated with productivity improvements and restructuring were the reasons for decline in comparable earnings. 1992 sales were 2% below 1991 primarily as a result of the loss of revenue due to the sale of Ampad Corporation.

Zellerbach

Zellerbach distributes paper, packaging materials and machines, and industrial/commercial supplies in 65 local markets throughout the United States.

Continued price pressures offset the sales gains over 1992 for both the paper and industrial/ commercial supplies businesses. The packaging business continued positive trends in sales growth and margin percentage. Earnings for the division declined significantly in 1993 due to market pressures and the ongoing reengineering of the logistics system, including the consolidation of warehouses and the transition to selective use of third party providers of logistics services. Sales declined slightly in 1992 compared to 1991 but earnings were substantially improved.

Zellerbach accelerated strategic initiatives in 1993, including restructuring and reengineering projects that continue to improve customer satisfaction ratings, provide a competitive cost structure, and should positively impact performance in 1994. Zellerbach will continue to invest in its long-term growth in 1994.

School and Office Products

Mead's School and Office Products division is the nation's largest manufacturer of school supplies. It also provides stationery products for home and office use, and is an industry leader in fashion and product design.

The division's sales grew 6% in 1993 and 4% in 1992. This excludes sales related to the liquidation of inventory purchased from Union Camp's school supply business in 1993, and 1992 sales of Ampad, a business that was divested in 1992. The 1993 growth was primarily fueled by sales in the Five Star®, Five Star® First Geary™, and Cambridge® product lines.

Pre-tax earnings for School and Office Products increased over 1992 levels due to strong sales and operating performance; 1992 earnings were penalized by losses associated with the bankruptcy of a major customer.

In 1993, the division began to implement fully integrated production planning, inventory control, purchasing and accounts payable systems which are expected to reduce costs over the long term. Mead also entered into a licensing agreement with Nike, Inc., which should positively impact the 1994 back-to-school season.

Electronic Publishing

Segment Summary

($ millions)	1993	1992	1991
Sales	$551.3	$494.8	$469.5
Comparable earnings	50.4	50.6	41.2
Other expenses		(9.2)	(3.0)
Earnings before income taxes	$ 50.4	$ 41.4	$ 38.2

Mead Data Central (MDC) is a leading electronic publisher of legal, business, and financial news and information. Its LEXIS® and NEXIS® information retrieval services are used by professionals in a wide range of disciplines throughout the world.

MDC's sales increased by 11% to $551.3 million in 1993 compared to 1992. However, comparable earnings were essentially flat at $50.4 million, due in large part to strategic investments to enhance the features and functionality of its services, new product development, and costs associated with sales force restructuring. Competitive pressures remained intense, affecting pricing and costs in 1993.

In 1992, sales increased 9%, adjusted for the 1991 sale of a subsidiary. 1992 comparable earnings increased 23% from 1991.

MDC introduced a number of new products and product enhancements in 1993, most notably FREESTYLE™ which enables online users to search the databases using natural language rather than

Boolean logic. MDC also added a FINDER® library of current addresses, phone numbers and demographic data on 111 million individuals which helps attorneys locate heirs, witnesses and parties in legal actions. MDC's Folio business released version 3.0 of its electronic publishing software that enables users to create their own information bases for searching and retrieving internal information.

Sales from the business information services area led the way for MDC as it aggressively targeted new business while strengthening relationships with existing customers. The legal information area identified key customer segments and also expanded service to smaller firms.

MDC will continue to focus on market-driven product development and anticipates increased margins in 1994 due to an overall performance improvement effort conducted in 1993, and completion of the amortization of certain intangibles acquired in the purchase of The Michie Company in 1988.

Investees

Mead's primary investees are Northwood Forest Industries, Ltd., a large producer of bleached softwood kraft pulp and wood products in British Columbia, Canada, and Northwood Panelboard Company, an oriented structural board (OSB) mill at Bemidji, Minnesota. Both are 50%-owned by Mead and Noranda Forest Inc. of Canada. Pulp from

Northwood is sold throughout the world by Mead Pulp Sales. Wood products sales are handled by Noranda Forest Sales Inc.

Northwood's 1993 sales were up 12% from 1992. Mead's share of 1993 earnings of all investees was $18.4 million, up from $6 million in 1992. Mead's share of 1991 results was an $18.1 million loss.

Lumber prices were up substantially during the year, more than offsetting depressed pulp prices. Improved housing starts and increased repair and remodeling boosted demand, as did log supply curtailments, particularly in the Pacific Northwest. The industry expects more of the same in 1994, as the outlook is strong.

Pulp prices were weak in 1993. The average domestic price for 1993 was down 19% from 1992 and represents the third straight year of declining prices caused by over-supply, high inventories and sluggish paper markets, particularly overseas.

A gradual improvement in prices is expected for 1994, although full year average prices are expected to remain depressed.

Selling, Administrative and Research Expenses

Selling, administrative and research expenses rose by 2% in 1993, versus 6% in 1992. Administrative expenses decreased from 1992 levels as a result of Mead's performance improvement program. Selling and research expenses increased in

1992 and 1991 primarily due to MDC's accelerated sales and marketing programs.

Interest and Debt Expense

Interest and debt expense declined to $96 million in 1993 from $101 million in 1992 and from $114 million in 1991. The 1993 reduction reflected lower average interest rates, and the 1992 reduction resulted from both lower rates and a somewhat lower average level of debt.

* * *

R Industry Segments

The company operates in a number of industry segments. The *Paper* segment includes the manufacture and sale of printing, writing, carbonless copy, publishing and specialty paper and pulp. *The Packaging and Paperboard* segment includes the manufacture and marketing of beverage and food packaging materials, corrugated shipping containers and paperboard. The *Distribution and School and Office Products* segment includes the distribution of a full line of paper products and the manufacture and distribution of school and office products. The *Electronic Publishing* segment includes the electronic delivery of legal and news information services and the publishing of state statutes and other publications for the legal profession.

All dollar amounts in millions	Sales (1)					
Year ended December 31	1993		1992		1991	
	Unaffiliated	Inter-segment	Unaffiliated	Inter-segment	Unaffiliated	Inter-Segment
Industry segments:						
Paper	$1,111.4	$169.0	$1,090.6	$162.6	$1,091.3	$149.0
Packaging and Paperboard	1,156.9	9.2	1,163.2	8.3	1,022.8	7.3
Distribution and School and Office Products	1,970.7	9.1	1,954.6	10.0	1,995.7	5.5
Electronic Publishing	551.3	.2	494.8	.2	469.5	.2
Intersegment elimination		(187.5)		(181.1)		(162.0)
Total	$4,790.3		$4,703.2		$4,579.3	

All dollar amounts in millions	Other—Included in Determining Earnings (Loss) from Continuing Operations (2)		Earnings (Loss) from Continuing Operations Before Income Taxes (2)(3)(4)		
Year ended December 31	1992	1991	1993	1992	1991
Industry segments:					
Paper	$ 22.3	$20.7	$101.9	$ 63.3	$ 92.1
Packaging and Paperboard	23.8	1.6	132.8	117.1	104.5
Distribution and School and Office Products	16.3	9.2	38.4	29.3	27.1
Electronic Publishing	9.2	3.0	50.4	41.4	38.2
Corporate and other	45.9	(44.1)	(139.7)	(195.6)	(113.9)
Total	$117.5	$(9.6)	$183.8	$ 55.5	$148.0

All dollar amounts in millions	Identifiable Assets (5)			Capital Expenditures (Including Capital Leases)			Depreciation, Depletion and Amortization		
Year ended	1993	1992	1991	1993	1992	1991	1993	1992	1991
Industry segments:									
Paper	$1,345.7	$1,295.2	$1,274.3	$158.6	$ 92.2	$101.7	$ 94.2	$ 88.1	$ 85.9
Packaging and Paperboard	1,405.7	1,379.9	1,383.8	114.6	102.5	101.4	134.4	125.9	114.9
Distribution and School and Office Products	510.2	482.8	522.3	22.6	13.0	11.9	12.0	13.6	18.6
Electronic Publishing	459.1	460.8	475.4	40.6	52.6	43.1	62.4	57.8	54.9
Intersegment elimination	(17.8)	(17.2)	(16.1)						
Corporate and other	461.6	429.9	346.5	10.3	10.3	16.3	13.1	14.2	14.1
Total	$4,164.5	$4,031.4	$3,986.2	$346.7	$270.6	$274.4	$316.1	$299.6	$288.4

[See pages 85 and 86 for footnotes.]

(1) Intersegment sales are made at substantially the same prices and on the same terms as to unaffiliated customers.

(2) The earnings (loss) from continuing operations before income taxes includes other expenses related to the performance improvement program and a loss on the sale of a subsidiary in 1992; and environmental costs and costs of business consolidations and a gain on the sale of a subsidiary in 1991.

(3) Earnings from continuing operations before income taxes for "Corporate and other" includes the following:

Year ended	DECEMBER 31		
	1993	**1992**	**1991**
Other revenues:			
Gain (loss) on sale of subsidiary	$	$ (22.5)	$ 44.1
Other	3.7	7.6	5.2
Interest expense	(96.2)	(101.1)	(114.4)
Comprehensive performance improvement program		(23.4)	
Other expenses	(47.2)	(56.2)	(48.8)
	$(139.7)	$(195.6)	$(113.9)

(4) During 1993, in connection with the comprehensive performance improvement program, the company reorganized its corporate functions whereby certain expenditures are allocated to the operating units. Accordingly, earnings before income taxes for

1992 and 1991 have been increased (decreased) from amounts previously reported as follows:

Year ended	DECEMBER 31	
	1992	**1991**
Industry segments:		
Paper	$(1.7)	$(2.8)
Packaging and Paperboard	(8.9)	(9.6)
Distribution and School and Office Products	(5.1)	(4.7)
Electronic Publishing	(4.5)	(3.3)
Corporate and other	20.2	20.4
	$ 0.0	$ 0.0

(5) The assets of "Corporate and other" consist primarily of cash and cash equivalents, property, plant and equipment and investments in and advances to investees.

The cumulative effect of the change in accounting principle in 1991 is applicable to segments as follows:

Year ended December 31	**1991**
Industry segments:	
Paper	$30.2
Packaging and Paperboard	15.6
Distribution and School and Office Products	38.0
Electronic Publishing	2.8
Corporate and other	6.9
	$93.5

[EXHIBIT 24]

[Excerpts From Mead's 1994 Annual Report]

TO OUR SHAREOWNERS

NINETEEN NINETY-FOUR was a year of results and real progress. We began to feel the effects of stronger pricing in the fourth quarter of 1994, and I am pleased to report that our continuing improvement efforts and solid operating performance helped us to more than hold our own for the year as we continued to report improved earnings for 1994.

We significantly sharpened our focus on the core forest products businesses by the successful divestiture of our electronic publishing division (Mead Data Central) for $1.5 billion on December 2, 1994.

And we initiated several significant moves to increase shareowner value—a stock repurchase program, a major debt reduction program and sharply focused investments in our base businesses.

As a result of all the above, our balance sheet is the strongest it has been in recent history, giving us the financial capacity to invest in our core businesses. All in all a good year—but we still are not satisfied!

You may find it difficult to isolate truly comparative operating performance from our financial statements because of the special charges. These charges provide for key, known, upcoming events such as the anticipated sale of our Kingsport, Tennessee, paper mill. These charges are detailed in the financial footnotes. As I personally look at how

Mead actually performed in 1994 and set aside all the unusual items, the normalized earnings from operations are $2.90 per share. This contrasts with full-year reported earnings of $11.21, which also include the gain on the sale from Mead Data Central (MDC), and the effects of the other items.

OUR BALANCE SHEET IS THE STRONGEST IN RECENT HISTORY, GIVING US THE FINANCIAL CAPACITY TO INVEST IN OUR CORE BUSINESSES.

The divestiture of Mead Data Central was a difficult decision but clearly the right one for Mead at this time. The world of electronic information is rapidly changing. Some of the factors that helped Mead grow this business have been superseded by other factors in the electronic information industry. There was a lot of market interest in MDC and we certainly found a natural owner in Reed Elsevier. They have significant editorial expertise and wanted increased electronic market access. Reed particularly wanted to increase its presence in the U.S. legal information market.

STRATEGIC CHALLENGE. Our primary strategic challenge is to invest the MDC proceeds wisely. After extensive deliberation, your Board of Directors decided to allocate $350 million to a stock buy-back program, and an additional $400 to $600 million to reduce both short- and long-term debt. These

programs are in the process of being implemented—long-term debentures totaling $269 million have been [illegible] short-term

* * *

[EXHIBIT 25—EXCERPTS]

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 1-2267

THE MEAD CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	**xx-xxxxxxx**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

MEAD WORLD HEADQUARTERS
COURTHOUSE PLAZA NORTHEAST
DAYTON, OHIO 45463
(Address of principal executive offices)

Registrant's telephone number, including area code: 513-495-6323

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares Without Par Value and Common Share Purchase Rights	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange
9% Debentures due 2017	New York Stock Exchange
6 3/4% Convertible Subordinated Debentures due 2012	New York Stock Exchange

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

As of January 27, 1994, the aggregate market value of the voting shares held by non-affiliates of the

Registrant was approximately $2,749,360,000 determined by multiplying the highest selling price of a Common Share on the New York Stock Exchange—Composite Transactions Tape on such date times the amount by which the total shares outstanding exceeded the shares beneficially owned by directors and executive officers of the Registrant. Such determination shall not, however, be deemed to be an admission that any person is an "affiliate" as defined in Rule 405 under the Securities Act of 1933.

The number of Common Shares outstanding at March 1, 1994 was 59,271,120.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on April 28, 1994, are incorporated by reference in Part III; definitive copies of said Proxy Statement were filed with the Securities and Exchange Commission on March 14, 1994.

PART I

Item 1. Business

Mead manufactures and sells paper, pulp, paperboard, lumber and other wood products. Mead also manufactures and distributes school and office supplies, distributes paper and other industrial

supplies and is engaged in the electronic publishing business.

Mead was incorporated in 1930 under the laws of the state of Ohio as the outgrowth of a paper manufacturing business founded in 1846, and has its principal executive offices at Mead World Headquarters, Courthouse Plaza Northeast, Dayton, Ohio 45463, telephone (513) 495-6323. Except as otherwise indicated by the context, the terms "Company" or "Mead" as used herein refer to The Mead Corporation and its subsidiaries.

Segment Information

Segment information is also included in Note R on page 52.

Paper

Mead's Fine Paper division manufactures cut-size copier paper; uncoated and coated papers for commercial printing; form bond and carbonless paper and papers for conversion by others into business forms; and other uncoated papers for conversion by others into such products as greeting cards and bank checks. Mead's Publishing Paper division manufactures web coated offset paper for use by book, magazine, catalog and advertising brochure publishers. The Fine Paper division sells papers manufactured by both divisions nationwide, both on a direct basis to printers and converters and through

paper merchants, including merchants owned by Mead. Additionally, Escanaba Paper Company, a wholly-owned subsidiary, sells its output to the Publishing Paper division of Mead, which resells the paper directly to publishers and printers. The pulp mills adjacent to the paper mills of these divisions and the pulp mill owned by an affiliate (see "Forest Products Affiliates") produce virtually all of the pulp required for use in these paper mills.

The Company's Gilbert division manufactures cotton content and premium sulfite paper and premium recycled papers, including bond, banknote, texts and cover, and technical and specialty papers, and sells these products principally through paper merchants, including merchants owned by Mead.

Mead's Specialty Paper division manufactures and sells, primarily through its own sales force, decorative laminating papers. This division also manufactures absorbent, filter, fire resistant, synthetic fiber and other specialty papers. The division's principal customers include manufacturers that serve the building materials, automotive and furniture industries.

The Mead Pulp Sales division sells market pulp manufactured by Northwood Forest Industries Ltd. and by a non-affiliate, Aracruz Celulose S.A. The division maintains one sales office and is represented by affiliates and independent agents in all major pulp-consuming areas of the world. The principal

market areas for pulp are in North America, western Europe and Japan.

Packaging and Paperboard

The Mead Packaging division designs and produces multiple packaging and packaging systems primarily for the beverage take-home market. The division operates through a network of subsidiaries, affiliates and licensees in the United States, Canada, Europe, Japan, the Far East and Pacific Rim, Mexico and Latin America. Demand for most beverage packaging is seasonal with inventories being built from November to March for the peak soft drink and beer sales of April through October.

Mead Coated Board, Inc., a wholly-owned subsidiary of Mead, operates a coated paperboard mill near Phenix City, Alabama, and two sawmills in Cottonton, Alabama and Greenville, Georgia, and owns various timberlands in Alabama and Georgia. The subsidiary is engaged primarily in the manufacture of coated natural kraft products used by the beverage packaging industry and by manufacturers of folding cartons for soaps, food products, hardware and apparel. The entire output of the Phenix City mill is sold by Mead Coated Board, Inc. to the Mead Coated Board division. The division sells approximately 50% of the mill output to the Mead Packaging division. The remainder is sold to a wide range of domestic and foreign carton converters. The division's customers are most concerned about

physical strength properties of the paperboard and its quality for reprographics. Mead started up a new CNK® paperboard facility adjacent to the Phenix City mill in late 1990, and has constructed additional sheeting facilities in foreign countries to handle a portion of the increased capacity. In 1993, the division commenced operations at new facilities at the Phenix City mill designed to enable the division to meet beverage packaging customer demand for post-consumer recycled content.

The Mead Containerboard division sells standard and special purpose corrugated shipping containers manufactured at eight converting plants located in the Midwestern and Southeastern regions of the United States from raw materials received from outside sources and from the division's Stevenson, Alabama corrugating medium mill. The division also sells corrugating medium from the Stevenson mill to unaffiliated manufacturers of containers.

Forest Products Affiliates

Northwood Forest Industries Ltd. ("Northwood"), which is owned 50% by Mead and 50% by Noranda Forest Inc. ("Noranda"), manufactures bleached softwood kraft pulp at its 1,600 ton-per-day mill in Prince George, British Columbia. The principal markets for its pulp are in the midwestern United States, western Europe and Japan. Lumber and plywood products are also produced at Northwood's three sawmills and its plywood plant in British

Columbia. Northwood has the annual capacity to produce over one billion board feet of lumber and 175 million square feet of plywood (3/8-inch basis). Northwood's solid wood products' operations provide about 670,000 tons (ODT) of wood chips or 70% of the fiber requirements for the pulp mill. A wood preserving operation also treats lumber and custom treats plywood from other sources.

Northwood Panelboard Company, a partnership owned 50% by Mead and 50% by Noranda and located in Bemidji, Minnesota, has the annual capacity to produce approximately 340 million square feet of oriented structural board (3/8-inch basis).

All of the wood products produced by Northwood and Northwood Panelboard Company are sold through a subsidiary of Noranda primarily in North America with approximately 20% sold to export markets. Mead has a long-term contract with Northwood pursuant to which Mead is entitled to purchase such of Northwood's pulp production as it may require.

TIMBERLANDS

Mead obtains most of its wood requirements from private contractors or suppliers and from Company owned timberlands. The annual wood requirement for Mead's wholly-owned operations is approximately 8,000,000 tons, of which approximately 16% is obtained from timberlands owned or leased by Mead.

The approximate annual requirement of wood for Northwood is 5,800,000 tons, the majority of which is obtained from Crown Lands through various types of cutting rights which are terminable or renegotiable at the government's initiative and from third parties having similar cutting rights.

As of December 31, 1993, Mead owned or controlled approximately 1,337,000 acres of timberlands in the United States. Approximately 106,000 acres of land are controlled by Mead under long-term agreements which expire at different times through 2027.

Distribution and School and Office Products

Zellerbach, Mead's distribution operation, is a national distribution business which distributes a full line of printing papers, industrial supplies and packaging materials and equipment. These products are distributed through a network of wholesale locations and printer-supply retail outlets. The business units carry inventory or order products against sales orders, depending upon the product and service requirements. Zellerbach distributes not only products of Mead, but also those of several hundred other manufacturers. In the distribution of paper and other products, competing merchants frequently distribute products of the same supplier.

The Mead School and Office Products division manufactures and distributes a line of school supplies (including filler paper, wirebound notebooks,

portfolios and looseleaf binders) as well as a line of office supply products (including envelopes, filing supplies and vinyl folders and binders). The division's products are distributed primarily through mass market retailers, office supply superstores and warehouse clubs. The school supply segment is highly seasonal with inventories beginning to be built in the winter and spring for shipment in late spring and summer, while the home and office products portion of the business is generally less seasonal in nature. Manufacturing and distribution is done from seven United States plants/distribution centers, and a small manufacturing facility operated in Nuevo Laredo, Mexico.

Electronic Publishing

The Mead Data Central division ("MDC") markets electronic information services worldwide to corporations, financial institutions, news media, governments and the legal, medical and accounting professions. Based in Dayton, Ohio, MDC has sales offices in approximately 50 major U. S. cities, with international offices in London, Zurich and Toronto. Principal services include LEXIS®, a computer-assisted legal research service, and NEXIS®, a computer-assisted news, financial, marketing and general information retrieval service. MDC's services are distributed to subscribers via subscribers' own computer equipment and custom terminals supplied by MDC.

MDC operates several other businesses, including The Michie Company division, which publishes, reports and edits state statutes and other legal reference materials in book and CD-ROM format; LEXIS® Document Services division, which provides public records searching and retrieval services for law firms, financial institutions and other customers; and Folio Corporation and Jurisoft, software development companies. MDC also controls a minority interest in Star Data Systems, Inc., a Canadian company that provides real-time quote services to Canadian customers.

International Sales and Operations

Outside of the United States and Canada, Mead and its affiliates operate a paperboard sheeting facility and are engaged in the manufacture of multiple systems and folding carton packaging in Europe, Asia and Latin America. Mead also has sales subsidiaries, affiliates, agents or distributors in a number of countries in Europe, Asia, Australia and Latin America.

Competition

Mead competes on a world-wide basis in its product lines, and the markets in which Mead sells its products are highly competitive. Several factors affect Mead's competitive position, including quality, technology, product design, customer service, price and cost. The Fine Paper and Publishing Paper

divisions compete with numerous other major paper manufacturers. The Gilbert division competes with a number of other manufacturers of premium cotton, sulphite and recycled papers. The Coated Board division competes with other boxboard producers, including manufacturers of all types of coated recycled boxboard, coated solid bleach sulfate and folding boxboard. The Packaging division competes with a number of carton suppliers and machine manufacturers and one other global systems-based multiple packaging supplier. The Containerboard division competes primarily with container producers in several market areas. The Zellerbach division competes with national and regional merchant chains, as well as independent local merchants. The School and Office Products division competes with national and regional converters, some with broad product offerings and others focused on narrow product segments. MDC faces increasing competition for new products and markets from numerous on-line and CD-ROM information providers as well as book publishers.

Employee and Labor Relations

Mead employs approximately 19,600 persons, of whom approximately 7,700 are production, maintenance and clerical employees represented by labor unions. Mead's 50% owned company, Northwood, employs approximately 2,300 persons. Mead and Northwood have approximately 50 labor

agreements currently in force of which approximately one-third are subject to renegotiation each year.

Mead's employee relation policies are based on mutual confidence and trust. All Mead labor contract negotiations during 1993 were concluded without any strikes.

Trademarks, Trade Names, Patents, and Franchises

Mead has a large number of trademarks and trade names under which it conducts its business, including "Mead," "Mead Papers," "Mead Packaging," "Zellerbach," "Montag," "LEXIS," "Lexpat," "NEXIS," "Super Shades," "Trans/Rite," "Trans/Tab," "Cluster-Pak," "Cambridge," "Chief," "Apex," "Info," "Moistrite," "Trapper," "Trapper Keeper," "Neatbook," "Gilbert," "OPAS," "Signature," "CNK," "Five Star," "First Gear," "Neu-Tech," "Gilcrest," "Esse," "ORGANIZER," "Spiral," "Sig-NATURE," "Management Series," "NO! RULES" and many others. Mead also has a great number and variety of patents, patent rights, licenses and franchises relating to its business. While, in the aggregate, the foregoing are of material importance to Mead's business, the loss of any one or any related group of such intellectual property rights would not have a material adverse effect on the business of Mead.

Environmental Laws and Regulations

Mead's operations are subject to extensive regulation by various federal, state, provincial and local environmental control statutes and regulations. These regulations impose effluent and emission limitations, waste disposal and other requirements upon the operations of Mead, and require Mead to obtain and operate in compliance with the conditions of permits and similar authorizations from the appropriate governmental authorities. Mead has obtained, has applications pending, or is making application for such permits and authorizations. Mead does not anticipate that compliance with such statutes and regulations will have a material adverse effect on its competitive position since its competition is subject to the same statutes and regulations to a relatively similar degree.

During the past five years (January 1, 1989—December 31, 1993), Mead (including its share of Northwood expenditures) constructed air and water pollution control and other environmental facilities at a cost of approximately $115 million. Significant environmental expenditures in the future are anticipated to include long-term projects for the construction of solid waste disposal facilities, and maintenance and upgrade of wastewater treatment plants and air emission controls. Due to changes in environmental laws and regulations, the application of such laws and regulations and changes in environmental control technology, it is not possible for

Mead to predict with certainty the amount of capital expenditures to be incurred for environmental

* * *

	manufacturing location in Nuevo Laredo, Mexico	
Zellerbach	45 wholesale locations throughout the United States; one converting operation; 34 printer-supply retail outlets; and 3 third party warehouses	Paper, packaging equipment and supplies distribution facilities
Mead Data Central	Dayton Ohio	Headquarters and database location
	Springfield, Illinois	Headquarters of LEXIS® Document Services
	Charlottesville, Virginia	Headquarters of The Michie Company division
	Provo, Utah	Headquarters of Folio Corporation
	Cambridge, Massachusetts	Headquarters of Jurisoft

Item 3. Legal Proceedings

In March 1989, the Ohio Attorney General filed a lawsuit against Mead alleging violations of state solid waste and water pollution laws at two landfills (the

Paint Street Site and the Storage Depot Site) owned and operated by Mead Fine Paper Division's Chillicothe, Ohio mill. The lawsuit sought injunctive relief (orders closing one landfill and modifying operations at the other landfill) and civil penalties. Mead has denied the allegations in the complaint, and since the filing of the suit, Mead has ceased use of and proceeded to close both landfills. Mead is currently disposing of its solid wastes at alternate permitted facilities and using its paper mill sludge to reclaim strip mines. Mead believes that it has closed both landfills to the satisfaction of the Ohio EPA, although certain issues concerning groundwater monitoring and treatment, as well as civil penalties, remain to be resolved. While Mead cannot predict the outcome of this litigation, because the estimate of closure costs have already been accrued, Mead does not believe that the litigation will have a material adverse impact upon its financial condition or results of operations.

In a related matter, in September 1993 Mead signed a Consent Order with USEPA under Section 3008(h) of the Resource Conservation and Recovery Act with respect to the Storage Depot Site. Pursuant to the terms of that Order, Mead will undertake certain investigative and remedial work designed to control releases of hazardous substances from the site. Work has begun and is expected to continue into 1995.

Mead believes that the U.S. Navy is legally responsible for the groundwater contamination at the Storage Depot site, including the cost of

implementing the Consent Order discussed above. In 1992, Mead filed a declaratory judgment action

* * *

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

REVIEW OF OPERATIONS

OVERVIEW OF 1993

Despite negative market conditions facing most of its businesses, Mead's earnings improved over 1992 and 1991 levels. Driving the earnings increase were significantly improved results from Mead's Northwood affiliates; the large paper mills in Escanaba, Michigan, and Chillicothe, Ohio; and the Coated Board and School and Office Products divisions. Earnings from Mead's Containerboard, Packaging and Zellerbach divisions were lower than 1992 results.

Sales increased as a result of higher levels of sales volume in many businesses. Pricing pressures continued into 1993 for almost all operations resulting in lower average prices in 1993 than in 1992 and 1991. Pulp prices, which plunged in 1991, deteriorated even further in 1992 and 1993. The exception for pricing was Mead's affiliate, Northwood Forest Industries, where wood products' prices increased significantly in 1993 compared to 1992 and 1991, and provided the impetus for Northwood's earnings improvement.

Within Mead's paper operations, sales volumes were higher than 1992 and 1991 but average selling prices, continuing 1991's downward trend, were slightly lower, reflecting the lackluster economy and large increases to industry capacity in recent years.

Mead Coated Board's volume grew in 1993 as it did in 1992 and 1991. Mead Packaging's sales dropped from the 1992 level due in large measure to increased competitive pressures on pricing and weaker foreign markets and currencies. The Containerboard Division was adversely affected by lower prices across its businesses, despite volume increases in the converting markets, and continued strong operations at the Stevenson, Alabama, corrugated medium mill.

Market difficulties in the paper and industrial/commercial supplies businesses continued to affect Zellerbach, Mead's nationwide network of paper merchant distributors. Improvements in productivity and cost reduction actions did not offset the effect of deteriorating prices.

Mead School and Office Products had another good year in 1993, with earnings higher than in both 1992 and 1991. The division liquidated the inventory purchased from Union Camp's school and office products business, contributing marginally to its favorable results.

Mead Data Central revenues grew 11% in 1993. However, strategic investments to enhance the

features and functionality of its services, as well as expenditures for new product development and sales force restructuring, offset the effect of sales growth resulting in little earnings change from 1992.

OPERATING RESULTS

Sales increased to $4.790 billion in 1993, compared to $4.703 billion in 1992 and $4.579 billion in 1991. The gains for both 1993 and 1992 were achieved despite the effects of lower paper prices and the sale of Ampad Corporation in July, 1992.

Earnings Per Share Analysis

	1993	1992	1991
Comparable earnings	$2.20	$1.93	$1.21
Other expenses		(1.00)	(.37)
Sale of business		(.30)	.45
Effect of tax rate change on deferred tax balance at beginning of year	(.12)		
Earnings from continuing operations	2.08	.63	1.29
Discontinued operations			(.17)
Cumulative effect of change in accounting principle		.58	(1.00)
Net earnings	$2.08	$1.21	$ .12

Comparable earnings were up almost 14% in 1993. However, the effect of the 1993 corporate tax rate increase of 1% on deferred taxes at January 1,

1993, negatively affected Mead's 1993 earnings from continuing operations by $.12 per share.

1992 comparable earnings were significantly improved over 1991 levels. The following items reduced 1992 earnings from continuing operations:

— A comprehensive performance improvement program resulted in an after tax charge of $58.9 million, or $1.00 per share.

— A $17.7 million after tax, or $.30 per share charge, represented a loss on the sale of the Ampad office products business.

In 1991, the $.37 per share charge related to costs for changing environmental requirements, business consolidations and the writeoff of certain engineering costs. The $.45 per share gain relates to sale of Micromedex.

In 1992, Mead adopted Statement of Financial Accounting Standards (SFAS) No. 109, requiring the determination of all income tax liabilities at current rates. The effect of adopting the new standard was an increase in net earnings of $34 million, or $.58 a share. In 1991, earnings were negatively impacted by adjustments affecting Mead's discontinued reinsurance business, and adoption of SFAS No. 106 related to postretirement benefits.

In 1993, the company adopted SFAS No. 112, "Employers' Accounting for Post-employment Benefits." Adoption had no impact on the company.

Depreciation, amortization and depletion of property, plant and equipment amounted to $261 million in 1993, compared with $246 million in 1992 and $236 million in 1991.

PAPER

Segment Summary ($ millions)	1993	1992	1991
Sales	$1,111.4	$1,090.6	$1,091.3
Comparable earnings	101.9	85.6	112.8
Other expenses		(22.3)	(20.7)
Earnings before income taxes	$ 101.9	$ 63.3	$ 92.1

Mead's paper segment earnings improved 19% on a comparable basis versus 1992, driven by strong operating results at the Chillicothe and Escanaba mills. Sales increased 2% in 1993 to $1.11 billion. Volume increased by about 11%, although prices across the board continued to be depressed. In 1992, sales were essentially flat compared with 1991, despite a 3% volume increase.

Industry capacity for coated paper in North America increased 8% during the last two years. Coated paper prices decreased slightly from 1992 throughout the industry. The American Forest and Paper Association (AF&PA) reports that total coated paper capacity will grow 3% in 1994 and 2% in 1995. As general economic conditions improve, demand is

expected to outpace capacity growth, relieving some price pressures.

Mead Publishing Paper

The Publishing Paper division provides book and magazine publishers, catalog printers and commercial printers with more than 500,000 tons of medium-weight coated paper each year. The division has developed a full line of recycled book and glossy grades in response to customer interest.

Sales volume increased due to improved order volume. While pricing was flat for 1993 when compared to 1992, the division's earnings grew significantly as a result of reduced costs and improved operating efficiencies. In 1992, sales were approximately 9% lower than 1991, and earnings dropped considerably as well. In spite of some optimism about economic recovery, the publishing industry is predicting modest growth, at best, but not enough to absorb a continuing oversupply of paper.

To upgrade the product mix and improve quality, Mead is investing $115 million in two major capital projects that are expected to be completed in 1994 and 1995.

Mead Fine Paper

Mead Fine Paper produces both coated and uncoated papers for business, printing and specialty

uses. The division is also a leading producer of carbonless paper.

Continued weak market conditions and depressed prices held sales growth to a modest increase for the division's Chillicothe, Ohio, mill. However, improved productivity and good cost controls, due in part to capital investments and performance improvement efforts, resulted in significantly increased operating profit for the division. Additional savings and productivity increases are expected for 1994 as a result of continued cost reduction efforts and the effects of capital investment. Mead is investing $111 million to upgrade its coated sheet quality. Earnings growth is expected to be moderate in 1994 in light of the pricing conditions. Despite weak market conditions and depressed prices, 1992 sales were up 6% compared to 1991, while earnings were flat.

The Kingsport, Tennessee, mill continued to be hit hard by market conditions. The mill did not run as well as anticipated in 1993. Sales decreased slightly, and operating results fell significantly compared to 1992.

Mead Specialty Paper

Mead Specialty Paper manufactures saturating papers for use in decorative laminates used in commercial and home construction, remodeling and furniture; and specialty grades in various industrial applications including automobiles.

Sales for 1993 were up slightly from 1992 levels while earnings decreased. Excess global capacity and poor economic conditions in Europe limited growth in 1993. Cost reduction efforts could not offset operating inefficiencies associated with the start-up of a capacity expansion project completed early in the year.

The U.S. housing, remodeling and auto production markets were stronger in 1993 than 1992 and these industries are forecasting a continuation of this trend. The division reported increased sales and earnings in 1992 compared to 1991.

Mead's Specialty division obtained ISO 9001 certification by meeting a set of international standards designed to improve product quality and consistency.

Gilbert Paper

The Gilbert Paper division produces high-quality communications papers, including cotton-content bonds, and specialty text and cover papers.

Gilbert reported slightly lower sales and earnings in 1993 due to reduced volume, a less profitable product mix, merchant consolidations and the weak economy. Productivity initiatives and performance improvement efforts should result in improved 1994 earnings. Sales of recycled grades and laser-compatible sheets continue to grow, as does potential for export growth.

The division reported a modest gain in 1992 sales compared to 1991, while earnings remained flat.

PACKAGING AND PAPERBOARD

Segment Summary ($ millions)	1993	1992	1991
Sales	$1,156.9	$1,163.2	$1,022.8
Comparable earnings	132.8	140.9	106.1
Other expenses		(23.8)	(1.6)
Earnings before income taxes	$ 132.8	$ 117.1	$ 104.5

Sales were essentially flat at $1.16 billion in 1993, and comparable earnings decreased 6%. Sales in 1992 rose 14% over 1991, while comparable earnings increased more than 32%.

A weak global economy and heightened competition leading to pricing pressures were key factors inhibiting growth in this segment. While cost improvements were significant across the divisions, they were not enough to combat difficult market conditions brought on by overcapacity.

Mead Packaging

Mead Packaging is a leading supplier of multiple beverage packaging and packaging systems. It also provides multiple packages of food and other products. Customers include large and small brewers, soft drink bottlers, food and other consumer products companies.

Lower brewery volume and lower than expected growth in the soft drink area, as well as price

pressures, contributed to decreased sales and significantly reduced earnings for 1993 in North America. 1992 sales and earnings were flat compared with 1991.

International earnings were near 1992 levels. Exchange rates, weak European and Japanese economies, and increased pricing pressures were offset by good cost controls.

An ongoing series of cost-effective packaging systems solutions is expected to enhance the division's position with customers overall. To counter worldwide competition and continuing price pressures in the future, the division is intensifying ongoing cost reduction efforts and investing additional capital on productivity improvements for 1994.

Packaging opened subsidiaries in Mexico and Brazil in 1993 and increased its business in Australia. Groundwork has also been laid for new operations in Argentina, Chile and Poland for 1994, as well as other points around the globe.

Mead Coated Board

Mead Coated Board manufactures coated paperboard for use in multiple packaging and folding cartons. Customers include folding carton manufacturers in North America, Europe and Asia, in addition to Mead Packaging's worldwide business.

1993 was the third full year of operation for the expanded Mahrt mill in Alabama. Production increased more than 5% to exceed designed capacity of 800,000 tons. More significantly, production of first quality coated board increased by over 13% as operating efficiency and quality improved, and as sales increases eliminated the need to fill capacity with uncoated board. Despite weaker market conditions worldwide in 1993, sales volume increased 5% primarily due to the folding carton business worldwide. As a result of quality, cost and productivity initiatives, and more favorable results from the division's related wood products operations, earnings significantly improved. However, competitive pressures in the global board market have eroded prices for CNK® paperboard, Mead's coated natural kraft board. Sales rose 14% in 1992 and earnings rose compared to 1991.

The global market for coated paperboard is expected to grow modestly over the next few years. Mead Coated Board, however, expects its sales growth to be above the industry average as market development efforts of the past couple of years take hold.

Mead Containerboard

Mead's Containerboard division produces corrugating medium used in shipping containers and operates eight corrugated container plants.

Solid volume growth in the converting business and good cost controls at the medium mill could not offset the effects of oversupply and price deterioration in both the medium and converted box markets. While sales were flat, earnings decreased compared to 1992. The division doubled its earnings in 1992 compared to 1991.

Independently conducted surveys in customer satisfaction showed the division's medium system has moved to preferred status with its customers. Its Stevenson, Alabama, mill obtained ISO 9002 certification.

Containerboard's inventory levels are stable and demand is on the upturn. It is expected that prices will solidify in 1994, and that additional productivity improvements will drive earnings improvement.

DISTRIBUTION AND SCHOOL AND OFFICE PRODUCTS

Segment Summary ($ millions)	1993	1992	1991
Sales	$1,970.7	$1,954.6	$1,995.7
Comparable earnings	38.4	45.6	36.3
Other expenses	.....	(16.3)	(9.2)
Earnings before income taxes	$ 38.4	$ 29.3	$ 27.1

Sales increased to $1.97 billion for the Distribution and School and Office Products segment while

comparable earnings were down 16% in 1993 versus 1992. Sales include those resulting from the liquidation of inventory purchased from Union Camp's school and office products division. Zellerbach's performance in a poor market and costs associated with productivity improvements and restructuring were the reasons for decline in comparable earnings. 1992 sales were 2% below 1991 primarily as a result of the loss of revenue due to the sale of Ampad Corporation.

Zellerbach

Zellerbach distributes paper, packaging materials and machines, and industrial/commercial supplies in 65 local markets throughout the United States.

Continued price pressures offset the sales gains over 1992 for both the paper and industrial/ commercial supplies businesses. The packaging business continued positive trends in sales growth and margin percentage. Earnings for the division declined significantly in 1993 due to market pressures and the ongoing reengineering of the logistics system, including the consolidation of warehouses and the transition to selective use of third party providers of logistics services. Sales declined slightly in 1992 compared to 1991 but earnings were substantially improved.

Zellerbach accelerated strategic initiatives in 1993, including restructuring and reengineering projects that continue to improve customer

satisfaction ratings, provide a competitive cost structure, and should positively impact performance in 1994. Zellerbach will continue to invest in its long-term growth in 1994.

School and Office Products

Mead's School and Office Products division is the nation's largest manufacturer of school supplies. It also provides stationery products for home and office use, and is an industry leader in fashion and product design.

The division's sales grew 6% in 1993 and 4% in 1992. This excludes sales related to the liquidation of inventory purchased from Union Camp's school supply business in 1993, and 1992 sales of Ampad, a business that was divested in 1992. The 1993 growth was primarily fueled by sales in the Five Star®, Five Star® First Gear™ and Cambridge® product lines.

Pre-tax earnings for School and Office Products increased over 1992 levels due to strong sales and operating performance; 1992 earnings were penalized by losses associated with the bankruptcy of a major customer.

In 1993, the division began to implement fully integrated production planning, inventory control, purchasing and accounts payable systems which are expected to reduce costs over the long term. Mead also entered into a licensing agreement with Nike, Inc.,

which should positively impact the 1994 back-to-school season.

ELECTRONIC PUBLISHING

Segment Summary ($ millions)	1993	1992	1991
Sales	$551.3	$494.8	$469.5
Comparable earnings	50.4	50.6	41.2
Other expenses	.....	(9.2)	(3.0)
Earnings before income taxes	$ 50.4	$ 41.4	$ 38.2

Mead Data Central (MDC) is a leading electronic publisher of legal, business, and financial news and information. Its LEXIS® and NEXIS® information retrieval services are used by professionals in a wide range of disciplines throughout the world.

MDC's sales increased by 11% to $551.3 million in 1993 compared to 1992. However, comparable earnings were essentially flat at $50.4 million, due in large part to strategic investments to enhance the features and functionality of its services, new product development, and costs associated with sales force restructuring. Competitive pressures remained intense, affecting pricing and costs in 1993.

In 1992, sales increased 9%, adjusted for the 1991 sale of a subsidiary. 1992 comparable earnings increased 23% from 1991.

MDC introduced a number of new products and product enhancements in 1993, most notably FREESTYLE™ which enables online users to search the databases using natural language rather than Boolean logic. MDC also added a FINDER® library of current addresses, phone numbers and demographic data on 111 million individuals which helps attorneys locate heirs, witnesses and parties in legal actions. MDC's Folio business released version 3.0 of its electronic publishing software that enables users to create their own information bases for searching and retrieving internal information.

Sales from the business information services area led the way for MDC as it aggressively targeted new business while strengthening relationships with existing customers. The legal information area identified key customer segments and also expanded service to smaller firms.

MDC will continue to focus on market-driven product development and anticipates increased margins in 1994 due to an overall performance improvement effort conducted in 1993, and completion of the amortization of certain intangibles acquired in the purchase of The Michie Company in 1988.

Investees

Mead's primary investees are Northwood Forest Industries, Ltd., a large producer of bleached softwood kraft pulp and wood products in British Columbia, Canada, and Northwood Panelboard

Company, an oriented structural board (OSB) mill at Bemidji, Minnesota. Both are 50%-owned by Mead and Noranda Forest Inc. of Canada. Pulp from Northwood is sold throughout the world by Mead Pulp Sales. Wood products sales are handled by Noranda Forest Sales Inc.

Northwood's 1993 sales were up 12% from 1992. Mead's share of 1993 earnings of all investees was $18.4 million, up from $6 million in 1992. Mead's share of 1991 results was an $18.1 million loss.

Lumber prices were up substantially during the year, more than offsetting depressed pulp prices. Improved housing starts and increased repair and remodeling boosted demand, as did log supply curtailments, particularly in the Pacific Northwest. The industry expects more of the same in 1994, as the outlook is strong.

Pulp prices were weak in 1993. The average domestic price for 1993 was down 19% from 1992 and represents the third straight year of declining prices caused by oversupply, high inventories and sluggish paper markets, particularly overseas.

A gradual improvement in prices is expected for 1994, although full year average prices are expected to remain depressed.

* * *

[EXHIBIT 26—EXCERPTS]

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 1-2267

THE MEAD CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	**xx-xxxxxxx**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

MEAD WORLD HEADQUARTERS
COURTHOUSE PLAZA NORTHEAST
DAYTON, OHIO 45463
(Address of principal executive offices)

Registrant's telephone number, including area code: 513-495-6323

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares Without Par Value and Common Share Purchase Rights	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange
9% Debentures due 2017	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of January 27, 1995, the aggregate market value of the voting shares held by non-affiliates of the Registrant was approximately $3,037,962,000 determined by multiplying the highest selling price of a Common Share on the New York Stock Exchange—Composite Transactions Tape on such date times the amount by which the total shares outstanding exceeded the shares beneficially owned by directors and executive officers of the Registrant. Such determination shall not, however, be deemed to be an admission that any person is an "affiliate" as defined in Rule 405 under the Securities Act of 1933.

The number of Common Shares outstanding at February 28, 1995 was 57,941,098.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on April 27, 1995, are incorporated by reference in Part III; definitive copies of said Proxy Statement were filed with the Securities and Exchange Commission on March 16, 1995.

* * *

As of December 31, 1994, the Board of Directors has restricted cash balances of $331.0 million, included in other current assets, for use in the payment of current tax liabilities related to the gain on the sale of the Electronic Publishing segment and other matters.

M—Discontinued Operations

Discontinued operations consist of the following:

(All dollar amounts in millions)

Year Ended December 31	1994	1993	1992
Earnings from operations of Electronic Publishing segment, net of income taxes of $27.8, $20.4 and $15.8, respectively	$ 37.9	$ 28.4	$ 23.9
Gain on sale of Electronic Publishing segment, net of income tax of $420.2	628.8		
Provision for loss in Insurance operations, net of income tax benefit of $18.2	(33.8)		
Provision for losses in Industrial Manufacturing segment, net of income tax benefit of $9.5	(15.5)	.....	.....
Discontinued operations	$617.4	$ 28.4	$ 23.9

In December 1994, the Company sold its Electronic Publishing segment (Mead Data Central) for $1.5 billion in cash. The financial statements and notes have been reclassified for all periods presented to reflect this segment as a discontinued operation. Revenues of the Electronic Publishing segment were $565.2 million for the period January 1, 1994 through November 30, 1994, and $551.3 million and $494.8 million for the years ended December 31, 1993 and 1992, respectively.

In 1986, the Company adopted a plan to discontinue the insurance business which had been conducted through its wholly-owned insurance subsidiaries and wrote off its investment. These subsidiaries wereput in a "runoff" position whereby they ceased underwriting activities but continued to settle claims. The remaining unsettled insurance claims are long term in nature. During the fourth quarter of 1994, the Company revised its runoff strategy in view of the long-term nature of the payout for claim settlements and sold one subsidiary and settled a significant portion of the outstanding claims liability. The revised strategy includes the disposition of the remaining insurance operations in the near term. As a result, an additional provision for loss on the disposition of the remaining insurance operations has been provided in the statement of earnings. The net liabilities of the insurance operations at December 31, 1994, include total assets of $92.9 million and claims and other reserves of $143.3 million.

* * *

(1) Intersegment sales are made at substantially the same prices and on the same terms as to unaffiliated customers.

(2) The earnings from continuing operations before income taxes includes the effect of the change in the depreciable lives of certain paper mill equipment (Paper—$28.7, Packaging and Paperboard—$14.0) in 1994.

(3) Earnings from continuing operations before income taxes in 1994 include the provision for loss on

the sale of a facility, costs of severance and closing costs for certain warehouses and office facilities and costs of pension settlements. The effect of the above charges by segment is Paper—$65.9, Packaging and Paperboard—$6.9, Distribution and School and Office Products—$17.3 and Corporate and other—$2.7. Included in 1992 are costs of a performance improvement program and a loss on the sale of a subsidiary. The effect of these charges by segment is Paper—$22.3, Packaging and Paperboard—$23.8, Distribution and School and Office Products—$16.3 and Corporate and other—$45.9.

(4) Earnings from continuing operations before income taxes for "Corporate and other" includes the following:

Year Ended December 31	1994	1993	1992
Other revenues:			
(Loss) on sale of subsidiary	$	$	$ (22.5)
Other	(2.5)	3.7	7.7
Interest expense	(101.1)	(94.6)	(99.5)
Comprehensive performance improvement program			(23.4)
Other expenses	(60.3)	(47.2)	(56.2)
	$(163.9)	$(138.1)	$(193.9)

(5) The assets of "Corporate and other" consist primarily of cash and cash equivalents, property, plant and equipment, investments in investees and net assets of discontinued operations.

U—Fourth Quarter Operations (Unaudited)

During the fourth quarter of 1994, the Company recorded several significant transactions, including the sale of the Electronic Publishing segment, a charge for additional losses in its discontinued insurance operations and a provision for environmental remediation costs at two sites formerly part of Mead's previously discontinued Industrial Manufacturing segment (Note M).

The Company recorded a charge to earnings of $60.0 million to reflect the estimated loss on sale of its Kingsport, Tennessee, facility. The Company announced its intent to sell the facility in October 1994. In addition, the Company recorded charges to earnings of $21.3 million, principally for severance and closing costs for certain warehouses and office facilities at its Coated Board and Zellerbach operations; a charge for settlements of pension liabilities of $11.5 million and an extraordinary loss on the extinguishment of debt of $11.3 million (after tax).

Reflected in earnings of equity investees is $9.1 million (after-tax) of refunds from duties levied on lumber exported from Canada by Northwood Forest Industries Ltd. in prior years.

[EXHIBIT 27]

[Excerpts of Mead's Board Meeting Minutes]

12-11-80

The meeting proceeded to consideration of the proposal to liquidate Mead Data Central Inc. and Mead Digital Systems, Inc. as subsidiaries and merge the same into the Corporation. Upon motion duly made and seconded, it was unanimously

MERGER OF MEAD DATA CENTRAL INC.

RESOLVED, That the Agreement of Merger providing for the merger into the Corporation of Mead Data Central Inc. in the form described to the meeting (such Agreement of Merger constituting a Plan of Liquidation of said corporation) be, and the same hereby is, approved and adopted, and the Chairman of the Board, the President or any Vice President and the Secretary or any Assistant Secretary of the Corporation be, and they hereby are, authorized and directed on behalf of the Corporation to execute and deliver said Agreement of Merger.

MERGER OF MEAD DIGITAL SYSTEMS INC.

RESOLVED, That the Agreement of Merger providing for the merger into the Corporation of Mead Digital Systems, Inc. in the form described to the meeting (such Agreement of Merger constituting a Plan of Liquidation of said corporation) be, and the same hereby is, approved and adopted, and the

Chairman of the Board, the President or any Vice President and the Secretary or any Assistant Secretary of the Corporation be, and they hereby are, authorized and directed on behalf of the Corporation to execute and deliver said Agreement of Merger.

FURTHER RESOLVED, That the officers of the Corporation be, and they hereby are, authorized on behalf of the Corporation to execute and deliver any and all documents and papers and to do any and all other acts and things as they may deem necessary or desirable to effect the aforementioned mergers.

7-26-84

CORPORATE OBJECTIVES COMMITTEE REPORT

Mr. Mechem reported on the meeting of the Corporate Objectives Committee held on July 25, 1984. He reported that the Committee had received a very stimulating presentation by Mead Data Central and indicated that the Committee was impressed with the growth and general development of this division and its strong position in the electronic publishing field. The Committee agreed that at the present time the sale or other disposition of this division should not be pursued but rather encouraged management to continue to develop growth plans for this division, including potential acquisitions, and requested that each such acquisition be presented to the Committee for its consideration.

* * *

CAPITAL EXPENDITURES APPROVED

Mr. Raoul-Duval presented proposals with respect to capital project requests to expand Mead Data Central's computer center, and purchase or lease two additional central processing units at Mead Data Central.

Whereupon after discussion, upon motion duly made and seconded, it was unanimously

RESOLVED, That the following major capital expenditure projects be, and the same hereby are, approved:

CPR No.	Plant and Description	Capital Amount
	* * *	
TM-125	Mead Data Central—Phase II Computer Center Expansion	$ 1,650,000
TM-128	Mead Data Central—2 Additional Central Processing Units	$ 7,672,000
	* * *	

RESOLVED, That the Corporation may enter into certain lease agreement(s) with lessor(s) selected by the officer executing the lease(s) on behalf of the Corporation, providing for the leasing of two central processing units and certain related equipment more fully described in said agreement(s) for use at Mead Data Central division for a five-year term with the aggregate rentals not exceeding approximately $7,672,000.

FURTHER RESOLVED, That the lease agreement(s) together with all other documentation required for the transaction may be executed and delivered on behalf of the Corporation by each of the officers of the Corporation in such form and contain such terms and conditions as the officer executing the same shall approve, executing being deemed conclusive evidence of approval, such officers may take such other actions as may be necessary or appropriate to carry out the intent of these resolutions.

———

12-10-93

MERGER OF MDC INTO THE CORPORATION

Mr. Mason presented a proposal to merge Mead Data Central, Inc. into the Corporation which should result in a substantial state tax savings. After discussion led by Mr. Graber and upon motion duly made and seconded, it was unanimously

RESOLVED, That the Agreement and Plan of Merger (the "Merger Agreement") between the Corporation and Mead Data Central, Inc., a Delaware corporation ("MDC") providing for the Merger of MDC into the Corporation effective as of 11:59 p.m. on December 31, 1993, and the assumption by the Corporation of all of MDC's liabilities and obligations, be, and the same hereby is, approved in substantially the form described to the Board of Directors at this meeting with such changes as the officer executing the same shall approve (as conclusively evidenced by the execution of the Merger Agreement).

FURTHER RESOLVED, That the Merger Agreement constitutes a plan of liquidation of MDC subject to Section 332 of the Internal Revenue Code of 1986, as amended.

FURTHER RESOLVED, That the officers of the Corporation be, and each of them hereby is, authorized on behalf of the Corporation to execute, acknowledge, deliver and file the Merger Agreement and any and all agreements, instruments and/or other documents (execution being deemed conclusive

evidence of approval) and to take any and all further action as shall be necessary or desirable in the Officers' sole discretion to carry out the intent of the foregoing resolutions.

MDC CAPITAL EXPENDITURE APPROVED

Mr. Mason presented for approval a proposed capital expenditure to fund the first stage of a capacity expansion, and its development, required in conjunction with the recently in introduced "Freestyle" search system. This expansion includes additional computer capacity and data storage capacity. After discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, That the following capital expenditure project be, and hereby is, approved:

Plant/Description	Capital Amount
Mead Data Central Phase I "Freestyle" capacity	$12.9 million

MINUTES APPROVED

Mr. Palmer reviewed the minutes of the regular meeting of the Board of Directors held on October 30, 1993 and proposed an amendment as follows:

* * *

The minutes were approved as corrected.

* * *

Mr. Mason discussed certain issues and opportunities concerning Mead Data Central, including on-going efforts to explore business alliances, acquisitions and other business strategies and arrangements.

* * *

ADJOURNMENT

There being no further business to come before the meeting, upon motion duly made and seconded, it adjourned at approximately 12:00 noon.

/s/ Thomas E. Palmer
THOMAS E. PALMER
Secretary

Mr. Bogle next presented the capital expenditures for the Mead Data Central Division's incremental computer capacity increase. After discussion and upon motion duly made and seconded, it was unanimously

CAPITAL EXPENDITURE APPROVED

RESOLVED, That the following capital expenditure projects be, and hereby are, approved:

Plants/Description	Capital Amount
* * *	
Mead Data Central Computer Capacity Increase	$9,100,000

LEXIS/COUNSEL CONNECT JOINT VENTURE

Mr. Bogle presented the Committee's recommendation to enter into a partnership with "American Lawyer Media, L.P.," to be known as Lexis Counsel Connect. Upon motion duly made and seconded, it was unanimously

RESOLVED, That the officers of the Mead Data Central division ("MDC") of the Corporation be, and they hereby are, authorized, through one or more subsidiaries of the Corporation, to enter into a partnership with American Lawyer Media, L.P., to be initially known as "Lexis Counsel Connect" (the "Partnership") which will provide an on-line communication system with e-mail and interactive

conferencing capabilities primarily among members of the legal profession in different firms or organizations.

FURTHER RESOLVED, That MDC be, and it hereby is, authorized to contribute not more than Ten Million Dollars ($10,000,000) to the capital of the Partnership.

FURTHER RESOLVED, That the officers of MDC and the Corporation be, and each of them hereby is, authorized to approve the form of and execute, acknowledge and deliver a partnership agreement, any and all certificates and/or documents (execution being deemed conclusive evidence of approval) and to take any and all further action as shall be necessary or desirable to carry out the intent of the foregoing resolutions.

4-27-94

REVIEW OF MEAD DATA CENTRAL

Mr. Mason indicated that the meeting was informational in nature for the purpose of assisting the Board of Directors in connection with evaluating the various strategic and financial alternatives that might be available to the Corporation with respect to the Mead Data Central division of the Corporation ("MDC").

Mr. Mason then presented the results to date of an ongoing project concerning strategic and financial alternatives for MDC. He gave an overview of the project and reviewed the various study teams, research and investigation and the extent of analysis.

Mr. Palmer, Vice president and General Counsel, gave a presentation on the legal responsibilities of the members of the Board of Directors.

Mr. Mason presented the current status of MDC's business with emphasis on its current business environment and prospects with an emphasis on changes since the presentation at the Cabin Bluff meeting of 1993. He then recommended a course of action which included further study of the various alternatives, as well as the possible uses of any proceeds which may be generated. Mr. Mason suggested that it may be appropriate to schedule another meeting in mid-May at which the results of this further study can be reviewed and consideration can be given to the advisability of pursuing a particular course of action.

Messrs. Zimmel and Moore of Goldman, Sachs reviewed the current status of their study of MDC and the various strategic alternatives, their preliminary analysis of the potential values which may be achieved under the various alternatives, and the results of their examination of various issues relevant to a review of the strategic alternatives.

Mr. Atkins of Skadden, Arps, Slate, Meagher & Flom reviewed various potential legal issues relating to alternative courses of action for MDC, including the potential impact on the Corporation.

Mr. Graber, Vice President and Chief Financial Officer, reviewed the potential financial impact on the Corporation of certain of the MDC alternatives.

Ms. Robinson, Vice President, Strategy & Planning, then updated the Board regarding certain issues relating to MDC which she had presented to the 1993 Cabin Bluff meeting.

Mr. Mason set forth a vision for the growth of, and other opportunities relating to, the businesses of the Corporation other than MDC.

Management recommended that no decisions be made at this meeting and the Board of Directors concurred.

MDC/DOW JONES AGREEMENT

Mr. Mason then presented a proposal that the Corporation enter into an agreement with Dow Jones & Company, Inc. for the Corporation's Mead Data Central Division to distribute certain Dow Jones' publications and discussed the proposed terms and conditions of such agreement. After discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, That a special committee of the Board of Directors composed of John C. Bogle, Steven C. Mason and Thomas B. Stanley, Jr. be, and hereby is, delegated full authority to approve an agreement between the Corporation and Dow Jones for distribution by the Corporation of certain Dow Jones publications upon such terms and conditions as the Committee deems appropriate and advisable.

MINUTES APPROVED

The minutes of the regular meeting of the Board of Directors held on February 24, 1994 were approved as submitted to the Directors.

5-14-94

ACTION ON MEAD DATA CENTRAL

Mr. Mason commenced the meeting by discussing management's view as to the basic values which may be achieved upon a divestiture of the Mead Data Central division of the Corporation ("MDC").

Mr. Palmer, Vice President and General Counsel, reported to the Directors on the efforts of Goldman, Sachs & Co. ("Goldman, Sachs") since the Directors' meeting in April. Mr. Palmer responded to a question regarding any update to Goldman, Sachs' view as to the likely price range to be realized from a sale of MDC. He also discussed the fee to be paid to Goldman, Sachs for their services in the transaction. Mr. Palmer responded to questions concerning ongoing relationships with suppliers and competitors.

The Board next discussed the proposed process to be followed in selling MDC. A proposed press release was reviewed by the Board of Directors and they agreed with it in concept with no substantive comments.

The Board discussed with Mr. Mason retention plans for MDC employees.

Messrs. Mason and Graber reviewed pro forma financial projections which had been submitted to the Directors in advance of the meeting, reflecting the potential impact on the Corporation of the sale of MDC. Discussion and questions followed.

After considerable discussion by the Directors, Mr. Palmer at the request of Mr. Mason called on each individual Director giving each an additional opportunity to raise any remaining questions.

A draft resolution which had been submitted to the Directors in advance of the meeting was discussed. Upon motion duly made and seconded the Directors unanimously adopted by roll call vote the following resolution:

RESOLVED, That having made a decision to focus on Mead's core forest products businesses—paper, pulp, packaging and paperboard, and distribution and school and office products—the Board of Directors hereby authorizes the Officers of the Corporation to explore divestiture alternatives for Mead Data Central which would maximize the value of Mead Data Central for the Corporation and its shareholders and further authorizes the retention of Goldman, Sachs & Co. to assist the Corporation in evaluating those alternatives.

ADJOURNMENT

There being no further business to come before the meeting, upon motion duly made and seconded, it adjourned.

/s/ Thomas E. Palmer
THOMAS E. PALMER
Secretary

08-04-94

JOURNAL GRAPHICS ACQUISITION

Mr. Mason presented information on Mead Data Central's ("MDC") proposal to acquire Journal Graphics, Inc. at a price of approximately $3,000,000 initially plus an earn out with a present value of an additional $3,000,000. The proposal included a standstill agreement for which the Corporation would pay for $200,000. After discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, That a special acquisition committee (the "Acquisition Committee") of the Board of Directors composed of John C. Bogle, Steven C. Mason and Thomas B. Stanley, Jr. be, and hereby is, delegated authority to approve the purchase of any or all of the capital stock of Journal Graphics, Inc., or any or all of the assets of Journal Graphics, Inc., such acquisition to be upon such terms and conditions as the Acquisition Committee deems advisable.

* * *

EXECUTIVE SESSION

The meeting then continued in an Executive Session.

ADJOURNMENT

There being no further business to come before the meeting, upon motion duly made and seconded, it adjourned.

/s/ Thomas E. Palmer
THOMAS E. PALMER
Secretary

The Committee also approved modifications to the Corporation's compensation programs effecting employees of Mead Data Central Division upon the close of its divestiture. Awarding of performance bonuses in the form of restricted stock or stock options to six senior executives who made significant contributions to the successful divestiture of the Mead Data Central Division, contingent upon the close of such divestiture, were approved by the Committee.

[EXHIBIT 35—EXCERPT]

PROPOSED MERGER OF MEAD DATA CENTRAL INTO MEAD CORPORATION

Background

Mead Data Central, Inc., a wholly-owned subsidiary of The Mead Corporation, was incorporated as a separate company in 1985, primarily for strategic and tax purposes.

Current Situation

It has been determined by Mead's Tax Department that a merger of Mead Data Central into Mead Corporation would result in substantial state tax savings. Estimated annual savings range from $1.2 million for 1994 increasing to $2.5 million by 2007 (based on current projections). The savings will occur primarily because Mead will be able to utilize net operating loss carryforwards which might otherwise expire unused.

A merger requires the approval of the Boards of Directors of The Mead Corporation and Mead Data Central, but no shareholder approval is required. It is expected that a merger can be completed by December 31, 1993.

It is estimated that the cost to complete the merger and related actions will be $350,000.

Recommendation

That the Board of Directors approved the merger of Mead Data Central, Inc. into The Mead Corporation.

BOD\wriup12/93
pap111793

[EXHIBIT 37]

LIQUIDATION/MERGER
MEAD DATA CENTRAL INC.
MEAD DIGITAL SYSTEMS, INC.

CURRENT SITUATION

Mead Data Central Inc. and Mead Digital Systems, Inc. both operate as wholly-owned subsidiaries of Mead. Due to the stage of market development, the nature of their business, and similar matters, these two business units are not currently as profitable in relation to sales, assets employed and payroll as other segments of Mead. As separate corporations they pay state income taxes based on their separate corporate results. For U.S. income tax purposes, they are included in Mead's consolidated U.S. income tax return.

PROPOSED CHANGE

It is proposed that Mead Data Central Inc. and Mead Digital Systems, Inc. be liquidated/merged into Mead and be operated as separate divisions. As divisions of Mead, the financial results of their operations, consolidated with the rest of Mead, would result in a projected combined net state income tax savings of $3.0 to $5.0 million over the next five years.

To facilitate the continuation of business after such liquidation, it is also proposed that Mead's officers be given the authority, from time to time, to qualify Mead as a foreign corporation in any state in which

such qualification may be necessary or desirable or to withdraw from such qualification when it becomes no longer necessary or desirable. No such general authority currently exists.

RECOMMENDATION

That the Board of Directors authorize management to proceed with the liquidation/merger of Mead Data Central Inc. and Mead Digital Systems, Inc. into Mead and to qualify Mead as a foreign corporation or to withdraw from such qualification as may be necessary or desirable.

Board of Directors
December 11, 1980
RBM:jn 2

STATE OF ILLINOIS)
) SS.
COUNTY OF COOK)

IN THE CIRCUIT COURT OF COOK COUNTY
COUNTY DEPARTMENT—LAW DIVISION

MEAD CORPORATION, Plaintiff, vs. ILLINOIS DEPARTMENT OF REVENUE, GLEN L. BOWER, DIRECTOR OF THE ILLINOIS DEPARTMENT OF REVENUE, and JUDY BARR TOPINKA, TREASURER OF THE STATE OF ILLINOIS, Defendants.	No. 00 CH 7854 Transferred to Law Division

VOLUME I (PAGES 1-113)

REPORT OF PROCEEDINGS at the trial of the above-entitled case before the HONORABLE ALEXANDER P. WHITE, Judge of said Court, on the 20th day of March, 2002, at 10:20 a.m.

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[18] A Yes, I was employed by Mead Data Central from the '76-'77 time frame to the end of my career in 1991 at Lexis.

Q What I'm going to do is refer to Mead Data Central as Lexis-Nexis from here on in.

A Yes.

Q Just consistent with our stipulation.

What position did you hold with Lexis-Nexis when you first started with Mead?

A I was head of operations, reporting to Ed Gossman, who was the chief strategic officer. And about a year later I was vice president of operations reporting to Jerry Rubin, who was the CEO of Lexis-Nexis.

In 1981-'82 I was acting president for two years. And then when Jack Simpson came on, who was the then president of Lexis-Nexis, I was general manager for Lexis and Nexis, and then just general manager for Lexis until I retired in—well, until '89. And then in '89 I was head of the Micchie Group, which was the Micchie Company, state statutes and things like that.

Q Do you know how the name Lexis was created?

A Yes.

Q Can you describe that for us?

A In around 1968, Mr. McSweeney bought a company [19] from his neighbor that had a couple things in it. They were very interested in the ink jet printing and how it would affect Mead. There was also some recognizance technology that was used on the Gemini flights and for recognizance flights in the military. And there was a full-text information retrieval product that was a result of a request for

proposal to the Air Force base in, at Wright-Patterson Air Force Base in Dayton, that they bid on, and that was one of their products, a full-text retrieval product.

Q Who was McSweeney?

A McSweeney was the chairman of the board of Mead.

Q You mentioned that when this Data Corporation was acquired in '68, one component was—was it Lexis-Nexis or the predecessor to Lexis-Nexis?

A Lexis-Nexis did not come about until 1973. What happened is about the same time as Mead bought this product, there was activity in Ohio and in Missouri by the bar association as to whether there was a better way to do legal research. So to make a long story short, Mead worked with the Ohio Bar Association and the Missouri Bar Association and created a product called MOH Bar, which took this software and applied it to the law in those two states, and they ran that product and [20] learned a lot up through '72, at which time it was stopped. What they learned from that, we redid the software and reconstituted the product and realized that you couldn't be very successful with Missouri and Ohio law, you had to have federal and larger states and more comprehensive product. And Lexis was relaunched in 1973 as Lexis, that was the beginning of Lexis.

Q That was the beginning of Lexis in 1973. And was it successful immediately?

A I wouldn't think so, no. I mean it's hard to put the Court back in that time frame. In 1973 people weren't computer literate, there were no Telenets or Timenets. We had to build our own keyboards, our own software, our artificial intelligence, telecommunications, front-end processors, NODAL networks, all those kind of things, and it took a while for Lexis to become successful. On a monthly basis, Lexis became profitable in late 1978, and thereafter it was cash-positive.

Q When did Lexis first become being used often by law schools and courts?

A It was gradual from '73. But the big event that really helped was the '74-'75 time frame when Bob Britton, who was one of our vice presidents, had an [21] audience with one of the Supreme Court Justices, he had like five minutes, and that justice had his clerks working on trying to find some precedent for about six, eight weeks, and they couldn't find any. Lexis found some remarkable precedents in a few searches. Bob ended up presenting to the whole court. The court became a customer very shortly thereafter. Once the court became a customer, courts like this became a customer, and then law firms around the United States needed to have Lexis. And so it was clear after '75-'76 that we were going to make it, it just took

volume to get us to '78 where we finally had enough volume to be profitable.

Q So by '78-'79 you were profitable?

A Yes.

Q Was there any competition with Lexis during this time period?

A Well, competition during that time was basically the manual process. You had a whole generations of lawyers who were used to the key numbering system. But as far as an electronic process, there was no competition at this time.

Q When did competition, serious competition, from the electronic world come about?

A Westlaw came out with a headnotes-only system in [22] the late '70s early '80s, which was not very successful. And they really copied our system and came out with a system as a secondary to the headnotes only system in the early '80s, and it became truly competitive by about 1985, somewhere in that time frame.

Q So through '85 there was no serious competition?

A That's correct.

Q Now, you mentioned in the '78-'79 time period the company became profitable, Lexis-Nexis. Was there any change in the '79 time period as to how customers could use Lexis?

A There were a lot of technology hurdles that we had to overcome. One of the difficulties were if—all terminals back in—it's hard to even explain this—all terminals back in that time were basic corded keyboards. And if you used Lexis, you used dot commands, like dot PF for page forward, dot BF for back, for page backward, BF for page backward.

We invented the, called the UBIC, which is the little red terminal that probably a lot of you, who are lawyers, have seen. We put those in law firms around the country. They had function keys on them. They had an auto-dialer on them so you could push page forward, page backward. You could push the auto-dialer and it [23] would automatically sign you into Lexis. And that was really the genesis of lawyers using Lexis. Because no longer did they have to do down to the library, it was on the desk behind them. And it really boosted our use quite a bit.

Q You stated that the UBIC had a function. What was the function, like the next page button?

A Yes, there was a page forward, page backward, there was a segment key, there was a citation key, there were lots of different keys on those keyboards for really ease of use, to make lawyers and judges be able to use the system without knowing an arcane language like dot PF.

Q Were you directly involved in the creation of UBIC?

A Yes, I was—I drew it on a napkin one night and a gentleman named Bob McConnell, who is a technical hardware genius, three weeks later had it working as a prototype.

Q Was the Mead Paper Company involved in the creation of UBIC?

A No. Mead had very little involvement in almost anything we did.

Q Starting in 1980, did anything happen with [24] respect to the facilities where Lexis-Nexis was located?

A Yeah. Up to 1980 we were located, with the small number of personnel we had, in the Mead world headquarters building, and we also bought CPU cycles from the corporate computer center.

By 1980, Lexis was growing so rapidly that it was clear that we were going to expand greater than this computer center could expand. Because it was on the 16th floor of a high-rise building, and you couldn't go up or down, that was the limitation. So we were asked to move. We built a building in Miamisburg, which became our computer center headquarters, and all of our people then were moved to Miamisburg.

Q Where is Miamisburg?

A About 15 miles south of Dayton.

Q And you mentioned that prior to the 1980 move that people were located in Dayton. Was Jerry Rubin and other people located there also?

A No. All the operations were in Dayton, Ohio, and the headquarters were always in the PanAm Building in New York. And what was in the headquarters building was Jerry Rubin, the executive office, the head of sales, head of strategy, and chief legal officer. And then all of operations were in Dayton, Ohio, reporting to me.

[25] Q And this Building 1 was created in 1980. Can you describe Building 1 to us?

A Building 1 was built as about as secure a facility as you could build for running a computer center which all your revenue comes through. It also housed about 200 people in the operations area. It had some very complex technology, like dual routing of power lines, dual routing of networks, so we could give you 100 percent availability. It had backup generators. It had backup wells, in case the air conditioners didn't work, so you could run water through the computer systems to cool them and all that kind of stuff. So it was a very complex building. It still runs today. It's very, very highly reliable.

Q Did the relationship between Mead and Lexis change after 1980 when you moved into Building 1?

A No, it was basically the same. The relationship between ourselves and Mead was very simple. They weren't lawyers, so they didn't know the law. They didn't know how to build databases. They didn't understand technology. They didn't understand NODAL networks. These were people that invested in something. They put people there that they trusted.

Once a year we would go to see them and present a [26] business plan. And that was pretty much the interaction between ourselves and Mead unless they had a question.

Q Were there Mead executive conferences that you attended?

A Yes, I did.

Q Can you describe that to us?

A If you were one of the top 30 or 40 people in Mead, you were invited to the executive conferences. I went for a while. They really dealt with issues that were relevant to Mead, which were stumpage, pulp, brown paper, white paper. I went for about two years and I didn't go anymore.

Q Why did you stop going?

A It wasn't anything relevant for us to do and, honestly, the cultures were so different that it really just was a waste of time.

Q I believe you mentioned earlier that you became acting vice president in 1982; is that correct?

A I became acting president.

Q Acting president, I'm sorry.

A Yes. I was already a vice president.

Q What were your responsibilities at that time?

A Everything. And everything reported to me—Lexis-Nexis, accounting, sales, everything.

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[29] BY MR. FIELDS:

Q And the difference between the Lexis and the Nexis would you briefly discuss?

A Well, Lexis was a very elegant, complex system for helping lawyers find the cases that they needed, including things like interfacing the Shepard's, interfacing the auto-cite, interfacing the treatise material, jump citing, and all that kind of stuff.

Nexis was a news and periodical and business product including information from the SEC, et cetera, to help business people find out people, places, things, and things to help them do their job.

Q Was Nexis successful in the early '80s?

A No, Nexis was not successful. It was launched in the early '80s, '79-'80 time frame, and it took about four or five years before it was profitable.

* * *

[31] A After Mr. Simpson came in and assumed responsibility as president, I was immediately responsible for both Lexis and Nexis. And as Nexis grew, it was given to another executive to spend full time on, and I spent full time as general manager and head of Lexis. So everything under Lexis reported to

me, technology, database building, acquisition of data, sales, everything.

Q You mentioned Building 1 earlier. Were there any other buildings involved with Lexis-Nexis?

A Yes. We wanted to create a—I was responsible for building Building 1. And my view was that if Lexis was going to make it, we wanted a campus environment. So we built Building 1 in a wooded area. We had about, I don't know, 50-60 acres, I guess. It ended up being the house—it ended up being the site for six buildings, including things like running track, showers, cafeterias, and all those things you need for a high-tech environment.

Q Did Mead's office building have similar type items, baseball diamonds and—

A No, . . .

* * *

[33] Q Was there an internal security department?

A Yes, there was.

Q Did Mead's senior management have complete access to the Lexis-Nexis facilities?

A No, they were guests.

Q Can you elaborate on that, what that means?

A If someone from Mead wanted to see us, they could get into the lobby and they had to be then escorted to whoever they wanted to see.

Could you compare the corporate cultures between Lexis-Nexis and Mead?

A Well, Mead was a $4 billion paper company that was basically growing at the GNP. It was a more or less slow moving, very structured, highly structured kind of a company.

Lexis-Nexis was very entrepreneurial, high-risk, long working hours, running tracks, everything you could do to keep people working to see if you could overcome these hurdles. Because if you go back to 1972 and look at the computer power, the disk drives, the telecommunications, it was a low probability you were going to get this thing to work. And so we had to invent a lot of things. We invented the first multiplexers. We [34] did the first NODAL networks. We did the first auto-dialers. We did the first function keys. We invented search technology that today is still written about. So all those things were very complex things that were happening in this time frame, very entrepreneurial, very almost free-flowing. If you had a great idea, run with it, because we had to figure out how to do this stuff.

Q Now, when you were working at Lexis-Nexis, did you have any business cards?

A Yes, I had two sets.

Q Could you describe them?

A We were known by Lexis and Nexis in the industry. If I wanted to get into a judge's chambers or the White House or the Supreme Court, if I gave my Lexis card, I could get in. We also had to have Mead cards because Mead executives wanted us to carry those and we used them when we were with Mead executives.

Q Did Lexis-Nexis provide bonuses to its employees?

A Yes, they did.

Q Could you describe how those bonuses were computed?

A There were really two types of bonuses. For the executives, they were based on the performance of Lexis

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[36] A No. Other than, as I said, we had basically a meeting every year to explain our business plan and that was pretty much it.

Q Did Mead have any involvement in pricing for the services that Lexis-Nexis charged?

A Never.

Q Could a customer of Lexis-Nexis receive a discount from Mead if they bought Mead paper?

A No.

Q What about a customer of Mead, did they receive a discount on Lexis-Nexis service?

A No.

Q Did Mead and Lexis-Nexis have a similar customer base?

A No. I mean there were certain businesses that probably bought Mead paper and also bought Lexis. But we sold to lawyers, accountants, judges, law schools. They sold to merchant houses, brown box companies, school supplies.

Q Did Mead use the Lexis-Nexis service?

A They did.

Q Did they receive a discount for using that service?

A No. They were billed as a regular customer and [37] they paid us as a regular customer.

Q Were they a significant customer?

A They were very insignificant actually.

Q When you were at Lexis-Nexis, how was the entity Lexis-Nexis legally structured?

A In the early days, based on my recollection, we were a division. And we were changed to a subsidiary, I believe, sometime in the '80s. We may have been changed back.

Q Did the legal structure affect the operation of Lexis-Nexis at all?

A No. The only thing I remember, one day I was at my summer home and they needed me to sign papers to change it. And that was the extent of the involvement and the extent of the knowledge. It didn't affect any—I don't think anybody else even knew, at least at Lexis-Nexis.

Q Did Lexis-Nexis have its own research and development department?

A Yes, we did.

Q Was that department shared at all by Mead?

A No.

* * *

[39] Q It's been stipulated that there were no regular transfers of personnel between Lexis-Nexis and Mead. Why were there no transfers of personnel, regular transfers?

A Well, with the exception of a few unique individuals that either had a strong technology background or a strong legal background, or later on maybe an accounting background, as we grew, there just wasn't the same type employment. I mean Mead was hiring woodsmen and paper marketers and machine operators. And we were hiring software people and lawyers and people that sold to different type of clientele.

Q Did Mead and Lexis-Nexis jointly purchase many items?

A None that I know of.

Q Why did they not make joint purchases?

A Well, basically we purchased different things. I [40] mean we purchased computer hardware in large volumes, different computer hardware than Mead used. We purchased office supplies, but we purchased them through our own purchasing department. And so basically, basically we ran as a separate company.

Q It's been stipulated that Mead and Lexis-Nexis did not share manufacturing facilities, they did not share selling facilities, they did not share distribution facilities. Are you aware of any facilities that Lexis-Nexis share with Mead?

A Other than the earlier time frame when we were in the world headquarters just as an accident, no. We were completely separate. There was one overlap, by accident also, in the PanAm Building in New York. We were on the 43rd and 44th floor. Mead had an office on the, I think it was the 12th floor. But they were separate contracts. We didn't share conference rooms. We didn't even know they were there until they told us.

Q Did Mead play any role in supervising the day-to-day operations of Lexis-Nexis's business?

A None whatsoever. And it's really very logical. These were paper people, and we were dealing with very complex, technical database issues. They just didn't have the experience.

[41] Q Did any individuals involved in the management of Lexis-Nexis, were they also involved in the management of Mead?

A No.

Q Was Mead's approval needed by Lexis-Nexis to make day-to-day business decisions?

A No.

Q What about for capital acquisitions?

A There was a capital acquisition structure which Mead put in, and changed over time, which gave us different authority levels to do different things. But even that was not really enforced. I know I was told by Mead early on: Listen, if it's computer gear, buy it. We don't know what you're doing. You know, you told us what your growth rate and your plan is, do it.

Now, they wanted to see, if we were going to buy a company, they wanted to see it; if we were going to build a new building, they wanted to see it. But basically, short of that, we were told to run our business.

Q Did Mead maintain any committees that monitored the activities of Lexis-Nexis?

A Not to my knowledge. And I was involved in almost every meeting from 1976 through '91.

[42] Q You mentioned earlier that Mead was a customer of Lexis-Nexis?

A Yes.

Q Are you aware of any other intercompany transactions between the two businesses?

A In the late '80s we bought a company called Micchie, which I testified that I was then later president of Micchie Group. Micchie not only—well, Micchie was a statute publisher that published in 19 lesser states basically. And occasionally Micchie would buy paper from Mead. But even in that case, Mead probably supplied maybe 10 percent of the paper. Ninety percent of the paper was bought by other people, bought by other companies.

Q Now, you said "we bought Micchie." Who was "we"?

A Lexis. Lexis bought Micchie.

Q And was any discount received from Mead when that paper was bought from Mead?

A No. That's why we bought a lot of paper from other people.

Q How would you describe Mead's ownership of Lexis-Nexis?

A They were an investor.

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[44] CROSS-EXAMINATION

BY MR. FLIFLET:

Q Mr. Roemer, as I understand it, you were not involved with either Mead or Lexis-Nexis during '93 or 1994, the years in question here; is that correct?

A That is correct.

Q Are you being compensated for your testimony here this morning?

A No, I am not.

Q You mentioned that Lexis began operations around 1973; is that correct?

A That's correct.

Q And then it became profitable in around 1978 or 1979; is that correct?

A That's correct.

Q Who was providing the capital to build the business during those years before it became profitable?

A Mead provided us the capitalg.

Q Thank you.

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[50] Q From an operational standpoint, how did Lexis-Nexis interact with Mead?

A It didn't.

MR. GOLDSMITH: Objection. Can you state a time frame when you're asking for these relationships?

MR. FIELDS: Certainly.

Q During the time from 1984 to 1994, first when you were with Lexis-Nexis and then when you were with the Mead Corporation, from an operational standpoint, how did Lexis-Nexis interact with Mead?

A To the best of my knowledge, on a day-to-day operating basis, there was no interaction. There were periodic strategy reviews, business plan reviews, but there were no day-to-day interactions that I'm aware of.

Q Did Lexis-Nexis have its own operating officers?

A Yes.

Q And what did those officers do?

A They directed the day-to-day operations of the company. They were responsible for the development of longer term strategies and funding requirements. They approved initiatives and projects to grow the business.

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[52] Q Now, it's been stipulated that Lexis-Nexis maintained its own marketing department which did its own advertising. Are you aware of any joint advertising between Lexis-Nexis and Mead?

A None.

Q Did Lexis-Nexis assist Mead with any of its advertising?

A No.

Q Do you know whether Lexis-Nexis—

THE COURT: Can I ask one question?

MR. FIELDS: Certainly, please.

THE COURT: In respect to advertising, where they had the Lexis-Nexis name, was there anything about a subsidiary of Mead?

THE WITNESS: I know that we used Mead Data Central. I'm not sure what the tag line was. I actually, I can't remember it. We were primarily going to market, though, as either Lexis or Nexis, that's where the brand equity was, that's where our customers understood us.

BY MR. FIELDS:

Q If you look at an advertisement, what would be the most prominent part of the advertisement? If it did say Mead Data Central also, would that be the most [53] prominent, or would the Lexis-Nexis?

A Nexis, Nexis or Lexis. I mean that was the brand against which we were known. That did lead to a lawsuit between Mead Data Central and Toyota over the introduction of the car Lexus. There was a

lawsuit back in the late '80s over that, which we ultimately lost, but we tried.

Q Did Lexis-Nexis have its own internal security department?

A Yes.

Q Can you describe that for us.

A Sure. It was headed up by a director by the name of Jim Anderson, whose background was Big Six consulting, and I believe at some point in time he was employed by the U.S. Secret Service. He was responsible both for information technology security as well as physical security. We had a lot of it.

Q A lot of it?

A A lot of it.

Q Did Mead also use this internal security department?

A No.

Q Now, it's been stipulated that Lexis-Nexis maintained it own human resources department and its own [54] marketing department. Are you aware of any departments that Lexis-Nexis shared with Mead from the time you began at Lexis-Nexis in 1984 through your time at Mead in 1994?

A No, there was no overlap.

Q Are you aware of any facilities that Lexis-Nexis and Mead shared at the time you were there?

A No.

Q Now, it's been stipulated that there is no regular exchange, or there was no regular exchange, of employees between Lexis-Nexis and Mead. And yet you started with Lexis-Nexis and now you're at Mead.

A I was the exception.

Q You were the exception?

A Right. There was, over the course of the time that I've been with the Mead Corporation, now MeadWestvaco, there may have been a half a dozen people out of, I don't know, a total population of about 4,000 employed by Mead Data Central, who transferred from Mead Data Central to the corporation in various capacities.

Q Were you transferred from one business to the other?

A Transfer is probably not the right word. In 1992 I had made a decision that I was going to leave Mead Data Central for personal reasons. I wanted to remain in the [55] Dayton area, so I applied for a position at the corporation in the strategy department and was hired.

Q That was a separate application?

A Nothing as formal as an application, but it was a separate initiative, let's put it that way.

Q Why were there so few transfers between Lexis-Nexis and Mead?

A Very, very different businesses. Very, very different cultures. Very different careers. I had basically, prior to joining Mead Data Central, had begun my career with University Microfilms, had worked for Memorex and high technology companies and then for some publishing companies. So Mead Data Central, as an electronic publishing company, the sort of integration of intellectual content and information technology coming together to form the basis for making money was a sort of unique business venture. To leave that market and go to the headquarters of a Fortune 500 company basically said you were making a career choice which would preclude your going back because things change so fast. So I made a career decision in 1992. Most people weren't prepared to make that career decision. If they were going to leave Mead Data Central, they'd leave to go to a publishing company or a technology company.

[56] Q How were bonuses computed for Lexis-Nexis while you were there?

A Entirely on the performance of the business against its business plan.

Q Were there ever situations that arose where employees of Lexis-Nexis received a bonus in one year but Mead's employees did not?

A Most of the years that I was employed by Mead Data Central.

Q In most of the years that occurred?

A Yes.

Q What type of approval was needed from Mead for Lexis-Nexis to engage in day-to-day business operations?

A None that I'm aware of.

Q What about approval for capital acquisitions?

A I think, to the best of my knowledge, there was a capital approval process that said above a certain signature, or above a certain capital level, you would get approval from the chairman. So I'm not sure what those limits were.

Q Did Mead ever have to go to Lexis-Nexis to seek approval for anything?

A No.

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[68] A There was, from an operational standpoint, there was little interaction. I think it was testified to earlier by Mr. Roemer and Mr. McGrane that there was an annual strategy review where the Lexis-Nexis strategy was reviewed or presented to

the corporation. And then there was what we called the business plan review where it would be more the operating plan for the next year, the profit plan for the next year, essentially here is what we expect in terms of profits and cash to be delivered to the corporation.

Q How was Lexis-Nexis legally structured?

A Well, it was—

MR. GOLDSMITH: Objection. Give us a time frame.

MR. FIELDS: Sure.

Q As CFO, did you become aware of how Lexis-Nexis was legally structured during any time frame from the mid '80s through your tenure with Mead, I guess current, through '94, when it was sold?

A As CFO of the Mead, previously CFO of the Mead Corporation, I became aware that it had changed between a division of the corporation and a subsidiary of the corporation over time. I am familiar with the last time that it was changed from a division to a subsidiary. It was about the time that I was leaving that business and [69] moving on to a new role.

Q During that last change while you were there, the change in legal structure, did that affect the operations of Lexis-Nexis at all?

A Not at all. There was probably a handful of people in either Lexis-Nexis or in the Mead

Corporation that would have had any idea that it was being changed. The legal staff at Lexis-Nexis was not particularly pleased at it because it meant a lot of work and redoing contracts and so forth. But past that, I don't think there were more than a handful of people that would have known.

Q Was Mead involved in the day-to-day operations of Lexis-Nexis?

A Not at all.

Q Not at all?

A Not at all.

Q Did Lexis-Nexis have its own real estate department?

A Yes, it did. It reported to me.

Q It reported to you?

A Uh-huh.

Q And did they provide services for Mead at all?

A No.

[70] Q Did Lexis-Nexis have a purchasing department?

A Yes, it did.

Q And did that have regular interaction with Mead Corporation?

A No. It also reported to me, and it had little or no interaction with Mead purchasing department.

Q What about a security department, was there a security department at Lexis-Nexis?

A Yes, there was

Q And did Mead use the same department?

A No.

Q They were separate?

A Very separate. It was a much more extensive security department at Lexis-Nexis than Mead would have had. I'm not sure in those days that Mead actually had a security department, but Lexis-Nexis had a very rigorous security program.

Q Did Lexis-Nexis and Mead each have their own separate payroll departments?

A Yes.

Q What about a policies department?

A Yes.

Q They were separate?

A Yes.

[71] Q Are you aware of any departments that Lexis-Nexis shared with Mead?

A No.

Q Did Mead and Lexis-Nexis jointly purchase raw materials?

A No.

Q Did they jointly purchase many items?

A I'm sure there was some commonality in some of the office supplies that they purchased; but to the best of my knowledge, there was never any joint purchasing activity.

Q Why is that?

A Well, from the raw materials standpoint, I'm sure that there was virtually no overlap in the types of raw materials that they would have purchased. I mean Mead purchased trees and stumpage and pulp and those sort of things, clay coatings, and so forth. And the types of things that Lexis-Nexis/Mead Data Central would have purchased would have been computer equipment and those types of things. Mead Corporation's information systems department presumably was purchasing some of the same types of things, but to the best of my knowledge there was no joint effort to leverage purchase contracts there either.

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[73] BY MR. FIELDS:

Q Did Lexis-Nexis provide technical assistance to Mead?

A No.

Q Can you please describe any intercompany transactions that you are aware of.

A Mead did a cash sweep. So to the extent that there was cash residing in Lexis-Nexis's bank accounts, that cash would have been swept into an account so that it could be invested. That was the most significant one.

I'm sure that over time there was probably some Mead paper that came in to the Lexis-Nexis business, although that was more coincidental than anything else. It was not because it was an intent to move that paper through, but rather in the marketplace Mead Corporation had probably, in most of its grades of paper, 10 percent market share, and probably a proportionate share of that paper would have migrated through the Lexis-Nexis.

EXAMINATION

BY THE COURT:

Q You mentioned a cash sweep conducted by Mead to invest excess cash?

A Right.

[74] Q Could Nexis-Lexis have done that themselves? In other words, they have their own sweep, they go out and say, hey, we've got some extra cash, we've got to cover our cash flow, and therefore why don't we invest this?

A They could have done so. They had a treasury department. It was, you know, they could have set up the banking relationships, the extensive banking relationships, and so forth, to do so, but chose not to.

MR. FIELDS: Nothing further, your Honor. Thank you.

THE COURT: Cross.

CROSS-EXAMINATION

BY MR. GOLDSMITH:

Q How often did Mead do these cash sweeps?

A I'm not sure exactly. I think it was probably on a nightly basis.

Q And this cash that was swept, that was invested according to whatever investments Mead decided to invest it in as opposed to Lexis-Nexis?

A Right.

MR. GOLDSMITH: No further questions.

FURTHER EXAMINATION

BY THE COURT:

Q Did they invest that then? Were those [75] investments made on behalf of Mead or Lexis?

A There was separate accounting—

Q Who did it accrue to?

A To—the investments were—the cash essentially was always attributable to Lexis-Nexis. There was separate accounts maintained and it would have been treated from an accounting standpoint as a—

Q So the investments that were made from the excess cash then accrued to the benefit of Lexis?

A That's correct.

* * *

STATE OF ILLINOIS)
) SS.
COUNTY OF COOK)

IN THE CIRCUIT COURT OF COOK COUNTY
COUNTY DEPARTMENT—LAW DIVISION

MEAD CORPORATION,) No. 00 CH 7854
) Transferred to
Plaintiff,) Law Division
)
vs.)
)
ILLINOIS DEPARTMENT OF)
REVENUE, GLEN L. BOWER,)
DIRECTOR OF THE ILLINOIS)
DEPARTMENT OF REVENUE,)
and JUDY BARR TOPINKA,)
TREASURER OF THE STATE)
OF ILLINOIS,)
)
Defendants.)

VOLUME II (PAGES 114-221)

REPORT OF PROCEEDINGS at the trial of the above entitled case before the HONORABLE ALEXANDER P. WHITE, Judge of said Court, on the 20th day of March, 2002, at 1:45 p.m.

* * *

[185] VOIR DIRE EXAMINATION

BY MR. FRANKEL:

Q Mr. Murray, this is the work papers you prepared for this case?

A No, this is work papers I prepared for the audit.

Q For the audit that precipitated this case?

A Correct. Well, it has some information on here for '93 and '94, but, yes, these were the papers I prepared.

Q And when did you prepare those?

A The dates are in the top right-hand corner. Most of them are April of '97 and March of '98.

MR. FRANKEL: No objection, your Honor.

THE COURT: Defendants' Exhibit A will be admitted into evidence.

DIRECT EXAMINATION (Cont'd)

BY MR. FLIFLET:

Q Would you show us on your work papers how it is that you apportioned the gain from the sale to Illinois?

A Well, it's about the fifth page from the back. What I did was, in the first section here—

[186] Q What is the page title?

A It says, "Illinois Sales of MCD Disposal."

Q Proceed.

A What I did in the top part of this is took Illinois property and divided it by the total MDC

assets to come up with an Illinois percentage of nearly 1.5 percent, and I took that 1.5 percent and multiplied it by the total proceeds that are on Federal Form 4797 to come up with an amount that should be included in the Illinois sales factor.

Q Where did you obtain your figures?

A The audit numbers?

Q Correct.

A From the taxpayer's source of documents.

Q Is there a particular document that you would have referred to?

A Well, it would have been like their apportionment work sheets they would have supplied and the federal balance sheet, but that's what the top part is, and the receipts from tangible assets, that's from the Federal Form 4797.

Q So you took these numbers right off their federal return?

A Except the Illinois property.

* * *

[203] BY MR. FRANKEL:

Q You don't know the part about their holding the use of funds being—

A Correct, I don't.

Q Would you please turn to your report, which is Defendants' Exhibit A, the page that you were reading from, which was the one on how you computed the alleged taxable gain for Illinois. You called it Illinois portion of gain. Do you have that page in front of you?

A Yes, I do.

[204] Q So what you did was, you used on the top part of your page a property factor which came to 0.014, et cetera?

A Correct.

Q And applied that to assets here in Illinois. And you have some number here. It says Illinois portion of receipts?

A Correct.

Q And then at the bottom of the page, you're taxing the intangibles and you come up with a $40-million gain number by not using a property factor, by using a wages and a sales factor; is that right?

A That's correct.

Q But the wages and the sales factor, which I believe is your 0.03, is about triple the 0.01, isn't it?

A Yes, that number is higher than the asset amount, correct.

Q So this adjustment is driven by your proposed taxation of the intangibles; is that right?

A What I was trying to do was to use—

Q It's a yes or no question. Is this adjustment driven by your trying to tax for Illinois [205] all these intangibles? It's a yes or no.

A Yes, the portion—

Q Thank you. Were you aware before today that MDC had six buildings in Ohio, Lexis-Nexis?

A I knew they had two large buildings in Ohio. I didn't know there were six.

Q Were you aware that's where they did all their development of their database and all their technical work?

A Yes.

Q Were you aware that that's where all the intangibles were that were worked on, there in Ohio, did you know that?

A No.

Q You didn't know that. Okay.

You testified that you do about 40 audits a year?

A Yes.

Q And there's about 8 business/nonbusiness issues you have a year?

A That's correct.

Q For how many years, roughly?

A Oh, for the audit period?

[DEFENDANT'S TRIAL EXHIBIT A—EXCERPT]

The Mead Corp.
Illinois sales of MCD disposal

Sch X1-B
xx-xxxxxxx
6/6/97
FAM

		12/31/93	
Illinois Property		4,406,947	
MDC Assets		341,843,038	
Capital leases		-29,610,839	
Land		-1,148,635	
		311,083,564	
Illinois Percentage		0.014166	
			12/31/94
Receipts from tangible assets			126,455,018
IL. portion of receipts			1,791,418
MDC	12/31/93		
Illinois wages	4,095,601		
Everywhere wages	189,352,719		
Illinois Percentage		0.021629	
Illinois sales	40,757,730		
Everywhere sales	534,770,828		
Illinois Percentage		0.076215	
Total IL percentage		0.112011	
Average		0.037337	
Gain from sales of intangibles			1,089,499,541
Illinois portion of gain			40,678,732